STOCKGROUP INFORMATION SYSTEMS INC
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FISCAL YEAR END: 1231

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BUSINESS ADDRESS:

STREET 1: SUITE 500 - 750 W PENDER STREET

STREET 2: VANCOUVER BRITISH COLUMBIA

CITY: CANADA V6C 2T7

STATE: A2

BUSINESS PHONE: 6043310995

MAIL ADDRESS:

STREET 1: SUITE 500 - 750 W PENDER STREET

STREET 2: VANCOUVER BRITISH COLUMBIA

CITY: CANADA V6C 2T7

STATE: A2

FORMER COMPANY:

FORMER CONFORMED NAME:

STOCKGROUP COM HOLDINGS INC

DATE OF NAME CHANGE:

20010920

FORMER COMPANY:

FORMER CONFORMED NAME: I TECH HOLDINGS INC

DATE OF NAME CHANGE: 19990506

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Form 10-KSB

U.S. Securities and Exchange Commission

Washington, D.C. 20549

[X] Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003.

[ ] Transition report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ....to.................

Commission file number: 0-23687

STOCKGROUP INFORMATION SYSTEMS INC.

(Exact name of small business issuer as specified in its charter)

Colorado

84-1379282

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

SUITE 500 - 750 W PENDER STREET

VANCOUVER BRITISH COLUMBIA CANADA V6C 2T7

A2

(Address of principal executive offices)

(Zip Code)

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

Check whether the issuer

(1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: X No:

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

State issuer's revenues for its most recent fiscal year: 3,020,399

The aggregate market value of common equity held by non-affiliates of the registrant as of March 9, 2004 was approximately $9.7 million.

The number of shares outstanding of the registrant s common equity, as of March 9, 2004 was 32,648,721.

Documents incorporated by reference: none

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

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STOCKGROUP INFORMATION SYSTEMS INC.

FORM 10-KSB

For The Fiscal Year Ended December 31, 2003

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PART I

Item 1. Business

GENERAL

Stockgroup is a financial media and technology company. We license financial market data and tools, which our customers use on their Web sites. We also operate Stockhouse.com and Stockhouse.ca. All of our services are delivered via the Internet.

PRODUCTS AND SERVICES

We have experience and understanding of Internet-based financial technology and media. Using a common technology infrastructure, we have developed two main revenue sources: Financial Software and Content Systems and Public Company Disclosure & Awareness Products.

Financial Software and Contents Systems

We have developed proprietary financial applications and tools we license to clients. The clients for Financial Software and Content Systems come from many different industries, such as news media, banking, stock brokerages, leasing, insurance and others. We provide the tools on a private-labeled basis, and they are typically sold in licensing contracts of 24 months. These long-term contracts generate stable, recurring revenue streams.

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

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

We sell financial tools through content and application syndicates, such as YellowBrix, through channel resellers such as The Associated Press, The Canadian Press, and through our own direct sales team. These financial tools, applications and content systems cover the entire North American market including mutual funds, commodities and equities.

We have built and maintain our proprietary data processing solution that aggregates the multiple feeds, translates and builds a common database infrastructure. Our system then cleans, filters and maintains the data for use by our various data-driven services. We have a sophisticated server and security system which runs this content/data management system. The data is streamed continuously in real time to our proprietary software applications and our client Web sites, intranets, and print publications.

The following are just a few of our over 25 Financial Software and Content Systems services:

- Real-time stock quotes on major U.S. exchanges;
- North American 20-minute delayed stock quotes and indices;
- Stock portfolio management, live portfolio updates and wireless portfolio updates;
- Most active stock updates;
- Stock watch lists;

- Company fundamentals, regulatory filings;
- Daily stock market winners/losers, most actives;
- Company profiles, stock screening (investment data) and technical stock analysis; and
- Employee stock option calculations.

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

- On a hosted basis where the content and private-labeled interface is hosted by Stockgroup and streamed to the customers Internet or Intranet site;

- Through software objects residing on the customers servers which use a proprietary interface to retrieve data from our servers;
- Through a secured Internet channel to a client s proprietary interface; or
- Through different wireless devices and modes including handheld devices, pagers and portals which have been built and maintained by us.

Public Company Disclosure and Awareness Products

We have developed and own a large array of Public Company Disclosure and Awareness Products. These services are used by clients to either (a) manage their investor relations and shareholder communications through their Web site, (b) generate awareness for their publicly listed company, (c) improve their U.S. and Canadian public disclosure compliance by automatically posting press releases and other disclosure items on their Web site or (d) advertise their products and services.

Products and services offered in this service area include the *IntegrateIR* investor relations Web page system, *Investor Marketplace*, *News Blast*, *Sector Supplement*, Internet advertising and other online investor marketing services. These services are either sold individually or as bundled comprehensive programs.

Public companies are increasingly outsourcing the Internet portion of their investor relations and awareness activities. In some cases this is because they lack the internal skills and resources, and in other cases it is more effective and cost efficient than in-house development and maintenance. Our understanding of this market segment has enabled us to develop a highly specialized bundle of services including: private label quotes, charts and database tools for building relationships with shareholders, and traffic reports to track investor usage of Web sites and inquiries.

Other awareness services for public companies include the following:

Investor Marketplace (IMP), a Web page which is actively marketed through advertising to draw readers, where companies can be featured online to prospective investors. Being featured on the IMP enables customers to get their name, profile and Internet link in front of a large investor audience that they may not otherwise be able to attain.

E-mail Services sold under the names *Stockhouse News Blast, Special Situation Alert,* and *NewsHotline*, which are purchased by our clients to help them disseminate their news releases and other information to a select list of investors. Our e-mail lists consist of subscribers who have opted to receive our mailings and confirmed their subscription a second time, a process known as double opt-in . We take great care to ensure that recipients actually want the e-mails we send them. Our policies regarding e-mail exceed the requirements of U.S. and Canadian unsolicited e-mail laws and other private agencies who attempt to regulate, filter, and prevent the use of unsolicited e-mail.

Sector Supplements, which are a spotlight feature on a certain industry sector, such as energy, mining, biotech or technology, are an effective exposure tool for companies. In a Sector Supplement investors are drawn to a Web site that features up to 15 companies and contains industry-specific news and information. Investors who visit this Web site can view each of the featured companies profiles, request information or link directly to the client s own Web site.

Advertising, which is shown on Stockhouse.com and Stockhouse.ca on a prescribed rotation, is another way for clients to get the attention of a targeted investor audience, or to establish a brand presence or sales of their products.

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

COMPETITION

The market for our Internet products and services is relatively new and has been highly fragmented, but we have seen a trend toward consolidation of the market in recent months. We compete intensely with other companies providing similar services to us. Many of those services are commodity-like and not easily differentiated. Our competition includes direct competitors such as Big Charts and CBS MarketWatch, as well as general-purpose Internet portals such as Yahoo! and AOL, who provide financial and investment research information. We also compete with companies such as CCBN and Shareholder.com for the sale of our IntegrateIR disclosure and awareness services. Our competition in the advertising market includes other financial and business related Web sites such as TheStreet.com and Globeandmail.com. We expect our competitors to remain strong as the Internet industry further consolidates.

CORPORATE BACKGROUND

We are a United States reporting public company incorporated in 1994 and registered in Colorado. Our shares are quoted on the OTCBB under the symbol SWEB and are listed on the TSX Venture Exchange under the symbol SWB. Our head office is in Vancouver, British Columbia, Canada.

From 1995 to 1999 we operated a financial markets publishing business and Web site aimed at small and micro-cap clients. It was essentially a smaller-scale version of what we do today with Stockhouse.

We used the funds from a public offering in the spring of 1999 to provide the foundation for the development and mass marketing of our services. In October 1999 we launched Smallcapcenter.com. At that time we believed that a subscription/ advertising model centering around small cap content was viable. While parts of this business model did not prove to be profitable, the exercise of building Smallcapcenter and its related investment tools gave us certain experience and skills, and a suite of service products to sell commercially.

From 2001 to 2002 we expanded our awareness and disclosure service line to include Sector Supplements and automated investor relations Web page tools such as the IntegrateIR. We already had a public company customer base, so the transition into this area was a natural extension of our core competencies.

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

On June 24, 2002, under an agreement with Stockhouse Media Corporation, we acquired a 65% interest in the Web site and certain related assets to run the Stockhouse brand Web sites. We issued 2,080,000 common shares in exchange for the interest in the Stockhouse Media Corporation assets and we control and manage the operations of the assets and receive the revenue to our account. Due to certain provisions in the agreement, we have the option of acquiring the remaining 35% of the assets for between 920,000 and 1,120,000 of our common shares based on a revenue/profit formula. The transaction was completed with an arms length party, although one of the principals of Stockhouse Media Corporation has since become one of our directors.

That transaction provided several key benefits to us including the addition of the Stockhouse brand product line to our service offering and the integration of assets into our business. The assets include Web site software systems, databases and programs needed to run Stockhouse.com.

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

Our corporate Web site is www.stockgroup.com.

EMPLOYEES

As of December 31, 2003, we employed 37 people on a full-time basis and 2 people on a part-time basis. None of our employees are subject to collective bargaining agreements. We have never had a work stoppage. We believe relations with employees are good.

REGULATORY ISSUES

We are not subject to governmental regulation in our Internet publishing efforts, nor do we know of any pending legislation or regulation which may impose regulatory requirements on our Internet activities. We believe that we are in compliance in all material respects with all laws, rule, regulations and requirements that affect our business, and that compliance with such laws, rule, regulations and requirements does not impose a material impediment on our ability to conduct our business.

SUBSIDIARIES

We own 100% of the issued and outstanding voting common shares of 579818 B.C. Ltd., which is an intermediary holding company with no activity and which wholly owns Stockgroup Media Inc., a British Columbia corporation. Stockgroup Media Inc. is our Canadian operating company, and is the company where significantly all of our current and future planned operations reside. Stockgroup Media Inc. owns 50% of Stockscores Analytics Corp., a British Columbia corporation with limited activity at this time and no material impact on us. In addition, we wholly own Stockgroup Systems Ltd., a Nevada Corporation, which is our U.S. operating company, and Stockgroup Australia Pty Ltd, an Australia Corporation, which is our Australia operating company. Both Stockgroup Systems Ltd. and Stockgroup Australia Pty Ltd. have very limited operation, no salaried employees, and no material assets.

RESEARCH AND DEVELOPMENT

We do not conduct research. During 2002 we invested approximately $78,792 in development activities related to new services. During 2003 our development activities were minimal. Our development consists of programming and design hours related to new services for later marketing and sale. During 2002 the major service products we built were the initial line of Financial Software and Content Systems services. We continue to develop new Financial Software and Content Systems services, albeit at a slower pace than in previous years as we already have a core set of services in place.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "intends," "will," or similar terms. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations, (ii) the Company's business and growth strategies, (iii) the Internet and Internet commerce and (iv) the Company's financing plans. Investors are cautioned that

any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors set forth under "Risk Factors" and elsewhere in this report. The preceding discussion of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and notes related thereto included elsewhere in this report.

Item 2. Description of Property

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND DOMAIN NAMES

We own the domain names www.stockhouse.com, www.stockhouse.ca, www.stockhouse.au, www.stockgroup.com, www.smallcapcenter.com, www.investormarketplace.com and others. We believe our ownership of these domain names gives us adequate protection over them and we intend to continue to keep them in our possession.

We own trademarks in the United States on Stockhouse , @ The Bell , Investors Click Here , Smallcapcenter and rela logos. We have no other significant registered trademarks as of the date of this filing. We may pursue other trademarks in the future.

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

LEASEHOLD

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

City

Monthly Payment

Lease Term

Expiry Date

Vancouver

C$

23,647 (US$18,297)

7 years

June 2006

New York

$

9,180

7 years

August 2006

New York sublease

$

(9,180)

3 years

April 2004

Toronto

C$

5,000 (US$3,869)

N/A

N/A

EQUIPMENT

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

Item 3. Legal Proceedings

We are currently involved in litigation in British Columbia Supreme Court with a former customer, Pacific Capital Markets Inc. or PCMI, to collect amounts owing pursuant to a contract entered into in September, 2000. The defendant provided a $100,000 deposit and contracted us to provide certain lead generation services. We delivered the requested services throughout October and November, 2000, however, the defendant defaulted on all additional payments. We are suing the defendant for the $351,800 balance owing, plus interest and costs. The defendant has filed a statement of defense and counterclaim to recover the $100,000 deposit. As of the date of this filing no further action had been taken by either party and no court date has been set. Although we currently believe the outcome of the litigation will be in our favor, we have not elected to aggressively pursue the litigation at this time. We have made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in our statement of operations as the litigation is resolved.

We have been named as a defendant in a lawsuit in Saskatchewan Court of Queen s Bench by plaintiffs Black Strap Hospitality, Harold Lane and Derek Neis. The plaintiffs have brought the action seeking damages for defamation in the amount of C$100,000 plus pre-judgment interest. The alleged defamation was caused by certain members of our Bull Boards investment discussion forum on www.stockhouse.com/ca. We have responded to the action by providing, under court order, information on the Bull Boards members specified in the court order. We expect to be released from this litigation without incurring significant expense.

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

None

PART II

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

MARKET INFORMATION

Our common stock has been quoted for trading on the OTC Bulletin Board since March 17, 1999, and on the TSX Venture Exchange since December 17, 2002. Accordingly, there has been a limited public market for our common stock.

The following table sets forth high and low bid prices for our common stock on the OTC Bulletin Board for the quarterly periods ended March 31, 2002 through to December 31, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

Quarter Ended

High

Low

Volume

March 31, 2002

$

0.400

$

0.140

5,509,300

June 30, 2002

$

0.260

$

0.147

2,734,400

September 30, 2002

$

0.200

$

0.125

1,785,900

December 31, 2002

$

0.270

$

0.140

6,072,100

March 31, 2003

$

0.380

$

0.205

4,858,400

June 30, 2003

$

0.380

$

0.219

7,464,200

September 30, 2003

$

0.400

$

0.260

13,125,600

December 31, 2003

$

0.380

$

0.250

7,794,000

The following table sets forth high and low bid prices for our common stock on the TSX Venture Exchange for the period from inception on December 17, 2002 to December 31, 2002, and the four quarterly periods ended December 31, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

Quarter Ended

High

Low

Volume

December 31, 2002 (partial)

C$

0.45 (US$0.29)

C$

0.38 (US$0.24)

181,500

March 31, 2003

C$

0.50 (US$0.33)

C$

0.31 (US$0.21)

575,300

June 30, 2003

C$

0.49 (US$0.35)

C$

0.34 (US$0.24)

703,744

September 30, 2003

C$

0.52 (US$0.38)

C$

0.33 (US$0.24)

1,019,500

December 31, 2003

C$

0.51 (US$0.38)

C$

0.34 (US$0.26)

575,900

The closing price of our stock on the OTC Bulletin Board on March 9, 2004 was $0.33, and on the TSX Venture Exchange on March 9, 2004 was C$0.41.

Our equity history is as follows:

Shares

Shares

Underlying

Underlying

Outstanding

Outstanding

Outstanding

Shares

Warrants

Options

Balance

December 31, 2002

19,552,596

5,183,693

2,602,700

Net issued (cancelled/

exercised) during

2003

12,946,125

(1,669,055)

(222,100)

Balance

December 31, 2003

32,498,721

3,514,638

2,380,600

Issued between

January 1, 2004 and

date of this filing

150,000

-

(538,500)

Balance on date of

this filing

32,648,721

3,514,638

2,919,100

Percentage of

outstanding shares

10%

9%

During 2003 we issued 12,946,125 shares of common stock, representing 66% of the outstanding stock at the beginning of 2003. We ended 2003 with 32,498,721 shares outstanding. Since then we have issued 150,000 shares pursuant to the exercise of stock options, for a total outstanding balance of 32,648,721 shares. We ended 2003 with 3,514,638 shares of common stock reserved for issuance upon the exercise of outstanding warrants, and 2,380,600 shares reserved for issuance upon the exercise of non-qualified stock options. Since the end of 2003, 150,000 options have been exercised, leaving 2,230,600 outstanding as of the date of this filing.

HOLDERS

On December 31, 2003, we had 186 holders of record, which does not include approximately 2,000 beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

DIVIDENDS

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002

The key external influence that affected our business in 2003 was the activity in, and growth of, the North American stock markets. The growth of the stock markets in 2003 indicates optimism on the part of the investing public. With optimism in the financial markets comes opportunities for public companies to engage in share offerings and other fund raising activities. It is companies in that fund raising stage who typically engage us to provide advertising services. The other effect of a positive stock market is on our Financial Software and Content Systems. We have found that both current and potential clients are more likely to engage us to provide financial tools and content for their Internet Web sites and intranets when there is popular interest in the financial markets. Finally, our Internet financial community at Stockhouse has become more active with the increased interest in the financial markets in 2003. The increased traffic at Stockhouse drives our ability to provide advertising services.

Revenue and Gross Profits

Revenue Summary ($000s)

2003

2002

Change ($)

Change (%)

For the year ended December 31

Total revenues

$

3,020

$

1,965

$

1,055

+54%

Breakdown of major categories:

Public Company Disclosure

1,851

1,209

642

+53%

Financial Software and Content

1,169

756

413

+55%

Our Public Company Disclosure and Awareness Products (PCDAP) revenue stream contains the revenue generated by the Stockhouse Web sites. Due to complex weaving of our existing services in with the new Stockhouse services, we are not able to ascertain the revenue which can be directly attributable to Stockhouse. We believe that the Stockhouse asset gives us an overall benefit because it gives our existing services added credibility and exposure, and gives us an alternative outlet for promoting and selling certain of our services. We acquired the Stockhouse web property late June 2002.

Revenue from monthly agreements for PCDAP services for the year ended December 31, 2003 was $750K, compared with $440K for 2002, an increase of $310K. In addition to the increase in revenue from monthly agreements, we had an increase in one-off PCDAP services of $332K, for a total increase year over year of $642K. The increase from one-off services was not from any one customer or industry, but rather, we believe from a combination of the support we gained from the acquisition of Stockhouse, a general market improvement, increased selling efforts by our existing sales team and the addition of 4 new members to our PCDAP sales team.

Financial Software and Content Systems (FSCS) revenue has grown at a steady rate due to its long-term, contractual nature. As new clients are added, the effect on revenue is felt incrementally over time rather than immediately. This gives us a good base of revenue, which will recur for the life of the agreements. Revenue from monthly agreements for FSCS services for the year ended December 31, 2003 was $998K, compared with $735K for the same period in 2002, an increase of $263K. In addition to the increase in revenue from monthly agreements, we had an increase in setup fee amortization and other development fees of $150K. The combined increase from our monthly revenues, setup fee amortization and other development was $413K year over year.

Cost of Revenues and Gross Profit Summary ($000s)

2003

2002

Change ($)

Change (%)

For the year ended December 31

Total cost of revenues

$

638

$

707

$

(69)

-10%

Gross profit

2,383

1,258

1,125

+89%

Gross margin %

79%

64%

+15%

Our cost of revenues consists of bandwidth, data feeds, advertising purchased for resale, and direct production labor. With the acquisition of Stockhouse, a high traffic Website, our bandwidth costs have risen from $78K in 2002 to $138K in 2003. Our data costs have risen from $394K in 2002 to $456K in 2003, due mainly to the addition of certain feeds in 2002 and early 2003. Our decreased emphasis on highly labor-intensive revenue such as programming and web site design has caused our direct labor costs to decrease from $180K in 2002 to $12K in 2003. Other direct costs decreased from $55K in 2002 to $32K in 2003 due to one-time adjustments to our product mix.

Because our cost of revenues has decreased while sales have increased, our gross profit has increased, both in dollar value and percentage of sales.

Operating Expenses

Operating Expenses Summary ($000s)

2003

2002

Change ($)

Change (%)

For the year ended December 31

Total operating expenses

$

3,119

$

2,266

$

853

+38%

Breakdown:

Sales and marketing

851

475

376

+79%

General and administrative

2,268

1,791

477

+27%

Sales and marketing expenses increased by $376K for 2003 when comparing with 2002, due primarily to an increase in the number of sales staff from 10 to 15 full time members throughout the year. The compensation and training expense arising from this increase in sales staff accounts for the increase in sales and marketing expense year over year.

General and administrative expense increased by a total of $477K for 2003 compared to 2002. This increase is due to several factors, most notably an increase in payroll expense, which is our largest expense category. The increase in payroll of $320K is attributable to both upgrades to our skill level and an increase in number of staff, and is partly offset by a decrease in consulting expense of ($152K). We have also had an increase in amortization of $150K as the Stockhouse Web site asset is being amortized over three years on a straight line basis, and the related server equipment leased concurrently with the Stockhouse acquisition is being amortized over two years straight line. Filing, regulatory, and investor relations expenses combined for a ($62K) decrease. Bad debts expense increased by $19K, due to increased risk on our accounts receivable from PCDAP. Foreign exchange rate changes have caused an increase in our expenses by $193K, as the Canadian dollar has gained value relative to the United States dollar, and the majority of our expenses, including payroll, are in Canadian dollars. Various other general and administrative expenses not mentioned above increased year over year by a combined $28K. The Stockhouse acquisition in June 2002 did not have a material impact on our general and administrative expenses other than amortization as described above.

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Other Income (Expense) and Income Taxes

Interest and Other Expenses Summary ($000s)

2003

2002

For the year ended December 31

Interest income

$

3

$

0

Interest expense

(896)

(320)

Loss on warrants liability

-

(55)

Gain on restructuring of convertible notes

-

1,089

Other income (expense)

1

(13)

Total interest and other gain (loss)

$

(892)

$

701

Breakdown of interest expense:

Cash interest

(36)

(40)

Non-cash interest on

conversion of 8% convertible

notes

(860)

(120)

Non-cash interest expense on

conversion of 3% convertible

debentures

-

(160)

Total interest expense

$

(896)

$

(320)

Cash interest consists of interest on capital leases and notes payable. The non-cash interest of $860K for 2003 arose from the conversion of our 8% convertible notes and the related acceleration of the amortization of the debt discount. The conversions in January and May, 2003 were done at discounted conversion rates, producing a deemed interest expense equal to the difference between the fair value of the shares that could be acquired at the original conversion price of $0.50 and the fair value of the shares that could be acquired at the discounted conversion rate in each event of conversion. The total of the deemed interest expense arising from the discounted conversion rate for the year 2003 was $724K. After the restructuring of the notes in February 2002, we had a debt discount that was subject to accretion over the period ended December 31, 2003. At the time of each conversion the pro-rata portion of the unamortized debt discount was immediately expensed according to the portion of the principal of the notes converted. The acceleration of the amortization of the debt discount produced a total interest expense for the year 2003 of $136K.

Income taxes were nil in both 2003 and 2002. Due to our net loss position, we did not accrue tax in 2003. As at December 31, 2003, we had tax loss carry forwards of $4,836K in Canada which expire as follows:

2006

$

2,088K

2007

$

2,289K

2008

$

459K

As at December 31, 2003, we had tax loss carry forwards of $3,459K in the U.S. which expire as follows:

2019

$

1,173K

2020

$

1,494K

2021

$

135K

2022

$

342K

2023

$

315K

Net Income

The net loss for 2003 was $1,628K compared to a net loss of $307K in 2002, a increase in net loss of $1,321K. The change in that loss is due largely to the non-cash interest expense as described above, in 2003, combined with the large non-cash gain on restructuring of our convertible notes in 2002. The removal of the convertible notes from our balance sheet, which was completed in January and May 2003, should reduce the net income volatility in the future.

LIQUIDITY AND CAPITAL RESOURCES

We ended 2003 with cash and cash equivalents of $1,400K, an increase of $860K from December 31, 2002. Our cash from (used in) operations for the past 4 quarters is as follows:

Q1 2003

($330K)

Q2 2003

($222K)

Q3 2003

($152K)

Q4 2003

$288K

We raised $1,734K in equity financing during 2003. We finished the year with no long term debt. We have $41K in capital lease payments due in the first 6 months of 2004.

We have not yet sought to obtain a bank line of credit, nor do we have immediate plans to do so. Our cash balance is expected to provide enough liquidity to help us through the next stage of our growth and to finance any planned asset acquisitions, including computer hardware upgrades. We plan to acquire between $250K and $500K in computer hardware during 2004, which will be leased wherever possible. Where leasing is not practical we will purchase hardware with cash or finance it with bank term loans.

We do not foresee declaring any cash dividends in the immediate future.

You should be cautioned that there can be no assurance that revenue, margins, and profitability will increase. There is a risk that our current cash balance will not be adequate for our long term needs, in which case we would need to raise additional financing through equity or debt issues. See the Risks section of this document for additional risk areas.

CRITICAL ACCOUNTING POLICIES

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

Revenue

Public Company Disclosure and Awareness Products consist of investor relations Web page tools, client profiling on our investment-oriented Web sites, e-mail services, sponsorships and Internet advertising services. These services are sold either individually or bundled together into comprehensive programs.

Investor relations Web page tools, sold under the name IntegrateIR, are delivered to the client s investor relations page of their Web site via an Internet data feed, in real time and on a continuous basis for an agreed period of time, normally 12 months. Revenue is recognized evenly, according to the agreed fixed rate, on a monthly basis once the IntegrateIR data feed has been activated. Setup fees, if any, are recognized ratably over the initial term of the agreement, on a monthly basis.

Client profiling on our investment-oriented Web sites consists of continuous or rotating client profiles on various specialized Web pages within Stockhouse.com, Smallcapcenter.com and Investormarketplace.com. Delivery of these profiles is based either on a certain number of days appearing on the Web pages or a certain quantity of page views, profile views or click-throughs, depending on the agreement. A page view is a single instance of an Internet user viewing the page which contains the client s name and/or logo. A profile view is a single instance of an Internet user clicking on the client s profile link. A click-through is a single instance of an Internet user clicking on the client s profile and being redirected to the client s Web site. Revenue is recognized on such client profile programs based on delivery, and delivery is organized and measured to equal the agreed monthly fee in each month the client is profiled on the Web pages.

E-mail services are mailings to a targeted list of e-mail addresses, with delivery consisting solely of transmitting the mailing to the e-mail targets. Each transmittal is called a flight. E-mail services may be bought on a per-flight basis, for which revenue is recorded when the flight occurs, or on a fixed-fee monthly basis in which the client receives access to a fixed number of flights per month. We record the revenue on the fixed-fee monthly e-mail services on a pro rata basis over the term of the agreement.

Internet advertising services on our Web sites are delivered and revenue earned on a page-view basis, as this term is defined above. Advertising insertion orders are obtained from clients and advertisements are delivered in a set rotation on www.stockhouse.com, www.stockhouse.ca, and others. At the end of certain specified period, usually monthly, the client is given a page-view delivery report and billed according to the number of page-views delivered.

Financial Software and Content Systems consists of real time, time delayed and wireless quotes and charts, company profiles, investment data and technical analysis. Revenue from set up fees, periodic maintenance fees and contractual monthly licensing fees for ongoing use of financial tools and content is recognized ratably over the contract term, which is typically 24 months.

All Financial Software and Content Systems services are delivered via an Internet data feed from our Web servers to the clients sites on a continuous real time basis. Revenue begins to be earned on the day the service is activated and begins to deliver content to the client site. Revenue is earned on a fixed monthly fee, with some clients paying a page-view overage fee over a certain number of page-views. The page-view overages, if any, are billed to the client and recorded on a monthly basis as they occur and usually represent a small portion of the overall monthly fee from each customer.

All sources of revenue are recorded pursuant to SAB 101 Revenue Recognition in Financial Statements, when persuasive evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable and collectibility is reasonably assured. Pursuant to EITF 00-21 Revenue Arrangements with Multiple Deliverables, when the services are provided in a multiple elements arrangement, revenue is allocated to each respective deliverable based on its relative fair value and recognized when the criteria under SAB 101 have been met.

We are not subject to specific performance criteria that would give rise to refund rights for services we provide.

Payments received in advance of services provided are recorded as deferred revenue.

Cost of Revenues

Cost of revenues is recorded if the cost relates directly to the services we sell or to our revenue-generating Web sites, namely Stockhouse.com/ca/au, Smallcapcenter.com, and InvestorMarketPlace.com. Cost of revenues consist of subscription fees for access to data feeds of financial and business databases, Internet bandwidth, direct advertising purchases, and direct labor. Data feeds are a key component of many of our Financial Software and Content Systems services, as well as a key input into our revenue-generating Web sites. Bandwidth is consumed by our revenue-generating Web sites, by our Financial Software and Content Systems services, by our IntegrateIR service, and by our e-mail mailing services. Direct advertising purchases relate to Internet advertising purchases for the purpose of promoting a client or clients feature on one of our Web sites. Direct labor is the hourly labor cost of certain programmers and designers who implement or maintain licensed client feeds, design advertising for clients, and produce e-mail mailings for clients. Direct labor costs are fully recognized as cost of revenues in the

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period in which the associated revenue is recognized. All other costs of revenues are recognized in the period incurred.

Property and Equipment

We evaluate, on a periodic basis, our property and equipment, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We base our evaluation on certain impairment indicators, such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, we then use an estimate of the undiscounted value of expected future operating cash flows to determine whether the asset is recoverable and measure the amount of any impairment as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

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

Contingencies

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

CORPORATE DEVELOPMENTS DURING THE YEAR

A synopsis of corporate highlights for 2003 is as follows:

On January 22, 2003, we reached an agreement with AP Digital, a division of The Associated Press that distributes news and information to interactive applications, to market and resell our market information and Financial Software and Content Systems to AP s worldwide network of members and customers. Under the agreement, AP Digital will sell our Financial Software and Content Systems to its existing and new customers. Stockgroup s sales team will facilitate and support AP Digitals sales efforts. A portion of all revenue generated from each sale will be paid to AP Digital as commission and the balance of the revenue will be received by us.

On January 26, 2003, we announced a licensing agreement with Global Securities Information Inc. (GSI) under which GSI pays us to provide GSI s clients with financial information powered by our Financial Software and Content Systems. GSI is an award-winning specialty provider of public-record business transaction information to law and accounting firms, investment banks, corporations and the business press.

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

On February 5, 2003, we announced an agreement with UnionBanCal Corporation s primary subsidiary, Union Bank of California, N.A., pursuant to which Union Bank will pay us a licensing fee to use our Financial Software and Content Systems for their business.

On March 18, 2003, we launched a financial resource portal for one of Canada s leading securities dealers, National Bank Financial. National Bank Financial paid us a development fee plus a continuing monthly licensing fee for its customized financial solution, which provides online market data services for their clients.

On May 23, 2003, we announced that Deephaven converted the entire remaining balance of its convertible notes into common shares. The principal balance of $1.2MM was converted at a negotiated conversion price of $0.28 into 4.4MM common shares. This conversion removes all the convertible debt from our balance sheet.

On June 4, 2003 and July 16, 2003, we completed our Short Form Offering equity placement in two parts. The lead underwriter was First Associates Investments Inc. The offering yielded C$1.4MM (US$1.0MM) in gross proceeds and aggregate net proceeds to us of approximately $0.9MM USD, and was composed of 3.7MM units at C$0.37, each unit consisting of one common share and one warrant. Each two warrants may be used to purchase one common share for C$0.75 (US$0.55) until 12 months after the respective completion date. We also issued as an underwriting fee agent s options to purchase 0.4MM of the same units at C$0.37 (US$0.27) for 24 months from the completion date, and we paid 8% underwriting commissions plus we reimbursed certain expenses of the underwriter.

On September 5, 2003, we repaid our 17% notes payable in full plus accrued interest to date. The notes matured on January 31, 2004, but the noteholders agreed to early payment without penalty.

On September 18, 2003, we announced with The Canadian Press (CP) that they have signed licensing agreements with five new clients. Our agreement with CP is similar to that with AP Digital, as described above.

On September 24, 2003, we announced with The Associated Press (AP) that they have signed a licensing agreement with its first Major Member Newspaper, the St Petersburg Times. As a result of the agreement, the Times will license a suite of news, market data and financial applications powered by our Financial Software and Content Systems. Our agreement with AP is similar to that with AP Digital, as described above.

On December 17, 2003, we announced that our client, Credential Direct, had placed second in Gomez Canada s ratings of discount brokerages, up from 10th place the year before. Our expanded financial services and tools offering to Credential Direct was a significant factor in Credential Direct s improvement in the Gomez ratings.

On February 16, 2004, Mr. Craig Faulkner resigned from our board of directors to pursue other business interests. Mr. Patrick Spain subsequently joined our company as an advisor to the board.