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

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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

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.

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet arrangements.

RISK FACTORS

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

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

We have a limited operating history upon which an evaluation of our current business and prospects can be based. You should consider any purchase of our shares in light of the risks, expenses and problems frequently encountered by all companies in the early stages of its corporate development, such as lack of capital, difficulty attracting high quality personnel, lack of market exposure, and uncertainty about the viability of our business plan.

Liquidity and capital resources are uncertain.

We incurred a net loss of $1,628,470 for the year ended December 31, 2003 [2002 - $306,677]. We have incurred losses in each of the prior 4 years as well. Should we be unable to finance future losses, we may become illiquid and unable to operate efficiently, if at all.

Computer equipment problems and failures could adversely affect business.

Problems or failures in Internet-related equipment, including file servers, computers and software, could result in interruptions or slower response times for our Web-based services, which could reduce the attractiveness of our Web site, financial tools or investor relations services to advertisers and users. Should such interruptions continue for an extended period we could lose significant business and our reputation could be damaged. Equipment problems and failures could result from a number of causes, including an increase in the number of users of our Web site, computer viruses, outside programmers penetrating and disrupting software systems, human error, fires, floods, power and telecommunications failures and internal breakdowns. In addition, any disruption in Internet access and data feeds provided by third parties could have a material and adverse effect on our businesses. Our limited resources do not currently permit us to maintain an off-site disaster recovery facility. As a result, if we experience a major disaster such as a fire, theft, or intentional destruction of our computer equipment, it could have catastrophic results for our business.

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

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

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

In the aggregate, beneficial ownership of Stockgroup shares by management represents approximately 16% of issued and outstanding shares of common stock. These shareholders, if acting together, will be able to significantly influence all matters requiring approval by shareholders, including the election of directors and the approval of mergers or other business combinations transactions.

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

We have or may pursue certain trademarks, and we have brand names, Internet domain names, Web site designs, programs and certain subscriber lists which make up the intellectual property we view as important to our business. It may be possible for a third party to copy or otherwise obtain or use our intellectual property without authorization or to develop similar technology independently. There can also be no assurance that our business activities will not infringe upon the proprietary rights of others, nor that other parties will not assert infringement claims against us, including claims that by, directly or indirectly, providing hyperlink text links to Web sites operated by third parties, we have infringed upon the proprietary rights of other third parties. Due to the global nature of the Internet, there can be no assurance that obtaining trademark protection in the United States will prevent infringements on our trademarks by parties in other countries. We have not sought or obtained any patents on our proprietary software and data processing applications.

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

Because materials may be downloaded by the public on Internet services offered by us or the Internet access providers with whom we have relationships, and because third party information may be posted by third parties on our Web site through discussion forums and otherwise, there is the potential that claims will be made against us for defamation, negligence, copyright or trademark infringement or other theories. Such claims have been

brought against providers of online services in the past. We have been named in two lawsuits in which defamation is alleged to have occurred on our Internet discussion forum called Bull Boards. The imposition of liability based on such claims could materially and adversely affect us.

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

We post news clippings from other news Web sites on the Stockhouse and SmallCapCenter Web sites with links to the source site. Most publishers currently encourage this practice, although certain publishers have requested that we cease posting their stories. We have complied with their request in each case. To the extent that a large majority of news publishers prohibit posting of their stories on our Web sites or begin charging royalty fees for such stories, our Web site traffic could decrease or our costs could increase, thereby adversely impacting our profitability.

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

Trading of our stock may be restricted by the SEC s penny stock regulations which may limit a stockholder s ability to buy and sell our stock.

The Securities and Exchange Commission has adopted regulations which generally define penny stock to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors . The term accredited investor refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer s confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

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

We may attempt to raise additional capital through the sale of common stock in the near future. Future issuances of common stock may dilute your position in us.

Our stock price is vulnerable to buying and selling pressures

20

As there is a limited market for our common stock, there may be considerable volatility in our stock price due to selling and buying pressures. Future sales of shares by our existing or future shareholders could cause the market price of our common stock to decline. There are currently 29,362,996 outstanding shares of our common stock which may be traded without restriction in any country, subject to the continued effectiveness of our registration statements on Form SB-2 and to subscription agreements we may have with certain of our shareholders.

There are 2,337,200 shares underlying stock options which are exercisable within 60 days of this filing, and which, if exercised, may be traded without restriction in any country. Of these options, 2,172,200 of them have exercise prices at or below the market price as of the date of this filing.

Our board of directors may authorize and issue preferred shares

Our board of directors has the authority to issue preferred shares with rights, preferences and/or privileges senior to or on parity with the rights of the holders of common stock. The potential consequences to our investors include a loss of perceived value of the stock in the market and a loss of future earnings and dividends, if and when dividends are declared.

Item 7. Financial Statements

Consolidated Financial Statements

Stockgroup Information Systems Inc.

December 31, 2003 and 2002

AUDITORS REPORT

To the Shareholders of

Stockgroup Information Systems Inc.

We have audited the accompanying consolidated balance sheets of **Stockgroup Information Systems Inc.** as at December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders equity (deficiency), and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stockgroup Information Systems Inc. as at December 31, 2003 and 2002 and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Vancouver, Canada, /s/ Ernst & Young LLP

February 20, 2004.

Chartered Accountants

Stockgroup Information Systems Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31 **(expressed in US dollars)**

	2003	2002
	$	$

ASSETS		
Current		
Cash and cash equivalents	**1,400,195**	539,970
Marketable securities	**2,616**	1,198
Accounts receivable [net of allowances for doubtful		
accounts of $45,016; 2002 - $40,866] *[note 3]*	**325,057**	169,675
Prepaid expenses	**79,648**	102,118
Total current assets	**1,807,516**	812,961
Property and equipment, net *[note 4]*	**311,632**	638,665
	2,119,148	1,451,626
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)		
Current		
Accounts payable	**217,110**	313,272
Accrued payroll liabilities	**115,208**	109,930
Deferred revenue	**499,525**	320,900
Current portion of capital lease obligation *[note 6]*	**38,920**	103,205
Current portion of notes payable *[note 7]*		95,371
Current portion of convertible notes *[note 8]*		81,328
Total current liabilities	**870,763**	1,024,006
Capital lease obligation *[note 6]*		31,844
Notes payable *[note 7]*		159,787
Convertible notes *[note 8]*		1,486,806
Total liabilities	**870,763**	2,702,443
Commitments and contingencies *[note 12]*		
Shareholders equity (deficiency)		
Common stock, no par value *[note 9]*		
Authorized shares - 75,000,000		
Issued and outstanding shares - 32,498,721		
[2002 - 19,552,596]	**13,218,924**	9,203,235
Additional paid-in capital	**3,099,314**	2,987,331
Accumulated deficit	**(15,069,853)**	(13,441,383)
Total shareholders equity (deficiency)	**1,248,385**	(1,250,817)
	2,119,148	1,451,626

See accompanying notes

Stockgroup Information Systems Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31 **(expressed in US dollars)**

	2003 $	2002 $
REVENUE		
Revenues *[note 10]*	**3,020,399**	1,964,699
Cost of revenues	**637,764**	706,911
Gross profit	**2,382,635**	1,257,788
EXPENSES		
Sales and marketing	**851,221**	475,038
General and administrative	**2,267,906**	1,790,848
	3,119,127	2,265,886
Loss from operations	**(736,492)**	(1,008,098)
Interest income	**2,500**	195
Interest expense *[notes 6, 7, and 8]*	**(895,870)**	(319,641)
Loss on warrants liability		(55,000)
Gain on restructuring of convertible notes *[note 8]*		1,088,586
Other income (expense)	**1,392**	(12,719)
Net loss	**(1,628,470)**	(306,677)
Basic and diluted loss per share	**(0.06)**	(0.02)
Weighted average number of common shares outstanding	**26,309,835**	14,151,349

See accompanying notes

Stockgroup Information Systems Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIENCY)

Year ended December 31 (expressed in US dollars)

[notes 8 and 9]	**Common stock # of shares**	**Common stock $**	**Additional paid-in capital $**	**Accumulated deficit $**	**Total shareholders equity (deficiency) $**
Balance at December 31, 2001	10,131,260	7,969,090	2,422,014	(13,134,706)	(2,743,602)
Issuance of common stock on partial conversion of outstanding convertible notes	666,700	100,000			100,000
Repurchase of beneficial conversion feature on partial redemption of outstanding convertible notes			(247,222)		(247,222)
Issuance of common stock on conversion of outstanding debentures	413,808		206,904		206,904
Reclassification of warrant liability to equity			165,000		165,000
Excess of fair value of convertible debentures after conversion			24,000		24,000
Issuance of common stock pursuant to private placements, net	5,454,750	571,563	301,756		873,319
Issuance of common stock pursuant to asset acquisition	2,080,000	424,320			424,320
Issuance of common stock for shares granted under the employee stock option plan	101,078	17,712			17,712
Issuance of common stock pursuant to exercise of employee stock options	205,000	13,050			13,050
Issuance of common stock for consulting services	500,000	107,500			107,500
Issuance of warrants for consulting services			60,000		60,000
Stock based compensation			54,879		54,879
Net loss				(306,677)	(306,677)
Balance at December 31, 2002	19,552,596	9,203,235	2,987,331	(13,441,383)	(1,250,817)
Issuance of common stock on conversion of outstanding convertible notes	5,708,075	2,393,153			2,393,153
Issuance of common stock pursuant to exercise of employee stock options	126,400	18,960			18,960
Issuance of common stock pursuant to exercise of warrants	3,368,850	875,000			875,000
Issuance of common stock and warrants pursuant to private placements	3,742,800	728,576	111,983		840,559
Net loss				(1,628,470)	(1,628,470)
Balance at December 31, 2003	32,498,721	13,218,924	3,099,314	(15,069,853)	1,248,385

See accompanying notes

Stockgroup Information Systems Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 **(expressed in US dollars)**

	2003	**2002**

	$	$
OPERATING ACTIVITIES		
Net loss	**(1,628,470)**	(306,677)
Add (deduct) non-cash items		
Amortization	**388,032**	308,558
Bad debt allowance	**4,150**	(51,464)
Non-cash interest on convertible notes and debentures	**860,351**	280,471
Gain on restructuring of convertible notes		(1,088,586)
Loss on warrants liability		55,000
Common stock and warrants issued for consulting services		167,500
Stock based compensation		72,591
Realized foreign exchange loss	**24,298**	3,322
	(351,639)	(559,285)
Net change in operating assets and liabilities *[note 13]*	**(64,109)**	128,418
Cash used in operating activities	**(415,748)**	(430,867)
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock	**840,559**	873,319
Proceeds on exercise of warrants	**875,000**	
Proceeds on exercise of stock options	**18,960**	13,050
Net proceeds from (repayments of) notes payable	**(266,086)**	144,034
Repayment of convertible notes	**(35,332)**	(120,000)
Repayment of capital lease obligation	**(96,129)**	(7,231)
Repayments of bank indebtedness, net		(6,081)
Cash provided by financing activities	**1,336,972**	897,091
INVESTING ACTIVITIES		
Purchase of property and equipment	**(60,999)**	(54,115)
Proceeds on disposition of property and equipment		1,243
Cash used in investing activities	**(60,999)**	(52,872)
Increase in cash and cash equivalents	**860,225**	413,352
Cash and cash equivalents, beginning of year	**539,970**	126,618
Cash and cash equivalents, end of year	**1,400,195**	539,970

See accompanying notes

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Stockgroup Information Systems Inc. (the Company) is a financial media and technology company that provides various financial Internet solutions, tools, content and services to media, corporate, and financial services companies. The Company employs proprietary technologies that enable it to provide its clients with financial data streams and news combined with fundamental, technical, productivity, and disclosure tools. The Company also provides Internet communications products for publicly traded companies and an online research center for the investment community through its www.stockhouse.com financial web site.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Use of estimates

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

Revenue recognition

The Company generates its revenues from two primary sources: Public Company Disclosure and Awareness Products and Financial Software and Content Systems.

Public Company Disclosure and Awareness Products consist of investor relations Web page tools, client profiling on the Company s 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Client profiling on the Company s 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 that 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 metered 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. The Company records the revenue on the fixed fee monthly e-mail services on a pro-rata basis over the term of the agreement.

Sponsorships consist of special mention or other information about a client that is attached prominently to the header section of the Company s daily news recap e-mail mailings. Sponsorships are sold either on a per-day basis, for which revenue is recorded on the day the client s sponsorship message is attached to the daily news recap mailing, or on a fixed-fee monthly basis in which the client receives access to a fixed number of days sponsorship per month.

Internet advertising services on the Company s 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. At the end of certain specified period, usually monthly, the client is given a page-view delivery report and is 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 the Company s Web servers to the clients sites on a continuous real time basis. Revenue begins to be earned on the day the data feed 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.

The Company is not subject to specific performance criteria that would give rise to refund rights for services it provides.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Cost of Revenues

Cost of revenues are recorded if the cost relates directly to the services the Company sells or to its 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 the Company s Financial Software and Content Systems services, as well as a key input into its revenue-generating Web sites. Bandwidth is consumed by the Company s revenue-generating Web sites, by its Financial Software and Content Systems services, by its IntegrateIR service, and by its 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 the Company s 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 period in which the associated revenue is recognized. All other costs of revenues are recognized in the period incurred.

Foreign exchange

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

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

Fair value of financial instruments

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Cash and cash equivalents

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

Marketable securities

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

Deferred finance costs

Finance costs associated with the issuance of convertible notes are deferred and amortized as interest expense in the statement of operations over the term to maturity.

Property and equipment

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

Computer equipment

5 years

Computer equipment under capital lease

2 years

Computer software

1 year

Website software

3 years

Office furniture and equipment

5 years

Leasehold improvements

Term of the lease

Product development costs

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Income taxes

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

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123 (SFAS 148). The pro-forma disclosure of stock based compensation is included in Note 9[c].

Under APB 25, compensation expense for employees is based on the difference between the fair value of the Company s stock and the exercise price if any, on the date of the grant. The Company accounts for stock issued to non-employees at fair value in accordance with SFAS 123. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted to non-employees.

Earnings per share

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

For the years ended December 31, 2003 and 2002, all of the Company s common shares issuable upon the exercise of stock options, warrants and other convertible securities were excluded from the determination of diluted loss per share as their effect would be anti-dilutive.

Comprehensive income

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Recent pronouncements

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A variable interest entity is an entity that has (1) equity investment at risk that is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties, (2) a group of equity owners that are unable to make substantive decision s about the entity s activities, or (3) equity that does not absorb the entity s losses or receive the benefits of the entity. FIN 46, as applied to small business issuers, is effective for all new variable interest entities created or acquired after January 31, 2003, for the first reporting period after March 15, 2004. For existing variable interest entities that are not special purpose entities created or acquired prior to February 1, 2003, FIN 46 is effective for the first reporting period after December 15, 2004. The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial condition; however, it does not expect the adoption of FIN 46 will have a significant impact on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. For existing financial instruments created before the effective date, any impact upon the adoption of SFAS 150 shall be reported as a cumulative effect of a change in an accounting principle. The initial adoption of SFAS 150 did not have a material impact on the Company's financial position, results of operations or cash flows.

3. CONCENTRATION OF CREDIT RISK

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

The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. One customer owed approximately 14% of the outstanding receivables in 2003. No customer owed greater than 10% of the outstanding receivables in or 2002.

4. PROPERTY AND EQUIPMENT

Accumulated

Net book

Cost

amortization

value

$

$

$

2003

Computer equipment

570,812

502,934

67,878

Computer equipment under capital lease

154,254

119,159

35,095

Computer software

151,938

151,938

Website software *[note 5]*

347,122

166,327

180,795

Office furniture and equipment

141,584

131,096

10,488

Leasehold improvements

62,434

45,058

17,376

1,428,144 **1,116,512** **311,632**

2002

Computer equipment

514,541

389,184

125,357

Computer equipment under capital lease

154,254

46,195

108,059

Computer software

147,747

111,070

36,677

Website software *[note 5]*

347,122

46,680

300,442

Office furniture and equipment

141,047

102,780

38,267

Leasehold improvements		
62,434		
32,571		
29,863		
1,367,145	728,480	638,665

5. ASSET ACQUISITION

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

The prepaid operating costs of $77,198 were expensed fully in 2002. The website software is being amortized over a three year period commencing on the date of aquisition.

The Company presently has the option to acquire the remaining 35% of the website and related software assets of Stockhouse with the issuance of additional common shares. As per the terms of the agreement, the number of common shares to be issued for the remaining 35% shall not be less than 920,000 shares and not more than 1,120,000 shares. Stockhouse will have the option to cause the Company to purchase the remaining 35% during the period of one year following June 24, 2004.

As of February 20, 2004, the Company has not exercised its option to acquire the remaining 35%.

6. CAPITAL LEASE OBLIGATION

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

	2003 $	2002 $
Total future lease payments	40,758	156,823
Less interest (effective rate during 2003 - 17%)	(1,838)	(21,774)
	38,920	135,049
Less current portion	(38,920)	(103,205)
		31,844

7. NOTES PAYABLE

The following table summarizes the activity under various agreements:

	Principal $	Accrued Interest $	Total $
2003			
Total Notes Payable			
2002			
16% Notes payable, no specified maturity date	**35,000**	**9,301**	**44,301**
17% Notes payable, maturing January 31, 2004	**159,787**	**1,794**	**161,581**
25% Notes payable, maturing January 21, 2003	**47,000**	**2,276**	**49,276**
Total Notes Payable	**241,787**	**13,371**	**255,158**

On May 8, 2001 the Company entered into a Securities Purchase Agreement with an individual related to a Director and Officer of the Company to issue C$50,000 (US$32,375) of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002 that was informally extended until November 18, 2002, at which time the investor agreed to an amendment to extend the maturity date to January 31, 2004 and increase the interest rate to 17%. On September 5, 2003 the note payable and accrued interest was repaid in full.

On May 10, 2001, the Company entered into a Securities Purchase Agreement with an unrelated investor to issue $35,000 of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002. The notes were extended beyond the original maturity by an informal agreement for an undetermined period. On September 5, 2003 the note payable and accrued interest was repaid in full.

On July 16, 2001, the Company entered into a Securities Purchase Agreement with a Director and Officer of the Company to issue C$50,000 (US$32,972) of secured unregistered 16% notes. The notes had an original maturity of July 30, 2002 that was informally extended until November 18, 2002, at which time the investor agreed to an amendment to extend the maturity date to January 31, 2004 and increase the interest rate to 17%. On September 5, 2003 the note payable and accrued interest was repaid in full.

On July 23, 2002, the Company issued a C$152,400 (US$97,034) promissory note to an unrelated party that bears interest at 17% interest and matures on June 30, 2003. On November 18, 2002, the noteholder agreed to extend the maturity date to January 31, 2004. On September 5, 2003 the note payable and accrued interest was repaid in full.

On October 22, 2002, the Company issued a $47,000 promissory note to an unrelated party that bears interest at 25.5% and matures on January 21, 2003. The principal plus accrued interest was repaid in full on the original maturity date.

Each of the Company s 17% notes payable was denominated in Canadian dollars and the repayments on September 5, 2003 resulted in a realized foreign exchange loss of $24,298 that has been reported in general and administrative expenses in the statement of operations.

8. CONVERTIBLE NOTES

	2003	**2002**
	$	$
8% Convertible notes, maturing December 31, 2005		

The impact of the discontinued operations in the Consolidated Balance Sheet is as follows:

	As at						
	March 31, 2005			December 31, 2004			
	Ecuador	United Kingdom	Total	Ecuador	United Kingdom	Syncrude	Total
Assets							
Cash and cash equivalents	**$ 1**	**$ 12**	**$ 13**	$ 2	$ 12	$	$ 14
Accounts receivable and accrued revenues	**156**	**12**	**168**	111	13		124
Risk management				3			3
Inventories	**20**		**20**	15			15
	177	**24**	**201**	131	25		156
Property, plant and equipment, net	**1,341**		**1,341**	1,295			1,295
Investments and other assets	**334**		**334**	328			328
	$ 1,852	**$ 24**	**$ 1,876**	$ 1,754	$ 25	$	$ 1,779
Liabilities							
Accounts payable and accrued liabilities	**$ 84**	**$ 30**	**$ 114**	$ 61	$ 32	$ 3	$ 96
Income tax payable	**105**	**1**	**106**	101			101
Risk management	**92**		**92**	72			72
	281	**31**	**312**	234	32	3	269
Asset retirement obligation	**22**		**22**	22			22
Future income taxes	**99**	**(1)**	**98**	80	11		91
	402	**30**	**432**	336	43	3	382
Net Assets of Discontinued Operations	**$ 1,450**	**$ (6)**	**$ 1,444**	$ 1,418	$ (18)	$ (3)	$ 1,397

Contingencies

In Ecuador, a subsidiary of EnCana has a 40 percent non-operated economic interest in relation to Block 15 pursuant to a contract with a subsidiary of Occidental Petroleum Corporation. In its 2004 filings with Securities regulatory authorities, Occidental Petroleum Corporation indicated that its subsidiary had received formal notification from Petroecuador, the state oil company of Ecuador, initiating proceedings to determine if the subsidiary had violated the Hydrocarbons Law and its Participation Contract for Block 15 with Petroecuador and whether such violations constitute grounds for terminating the Participation Contract.

In its filings, Occidental Petroleum Corporation indicated that it believes it has complied with all material obligations under the Participation Contract and that any termination of the Participation Contract by Ecuador based upon these stated allegations would be unfounded and would constitute an unlawful expropriation under international treaties.

In addition to the above, the Company is proceeding with its arbitration related to value-added tax (VAT) owed to the Company and is in discussions related to certain income tax matters related to interest deductibility in Ecuador.

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(All amounts in $ millions unless otherwise specified)

4. DISPOSITIONS

In March 2004, the Company sold its equity investment in a well servicing company for approximately $44 million, recording a pre-tax gain on sale of $34 million.

On February 18, 2004, the Company sold its 53.3 percent interest in Petrovera Resources (Petrovera) for approximately $288 million, including working capital adjustments. In order to facilitate the transaction, the Company purchased the 46.7 percent interest of its partner for approximately $253 million, including working capital adjustments, and then sold the 100 percent interest in Petrovera for a total of approximately $541 million, including working capital adjustments. In accordance with full cost accounting for oil and gas activities, proceeds were credited to property, plant and equipment.

5. FOREIGN EXCHANGE LOSS

	Three Months Ended March 31,	
	2005	2004
Unrealized Foreign Exchange Loss on Translation of U.S. Dollar Debt Issued in Canada	**$ 18**	$ 39
Realized Foreign Exchange Losses	**13**	20
	$ 31	$ 59

6. INCOME TAXES

The provision for income taxes is as follows:

	Three Months Ended March 31,	
	2005	2004
Current		
Canada	**$ 186**	$ 222
United States	**32**	8
Other	**7**	(5)
Total Current Tax	**225**	225
Future	**(288)**	(195)

Future Tax Rate Reductions		(109)
Total Future Tax	**(288)**	(304)
	$ (63)	$ (79)

The following table reconciles income taxes calculated at the Canadian statutory rate with the actual income taxes:

	Three Months Ended March 31,	
	2005	2004
Net Earnings Before Income Tax	**$ (188)**	$ 247
Canadian Statutory Rate	**37.9%**	39.1%
Expected Income Tax	**(71)**	97
Effect on Taxes Resulting from:		
Non-deductible Canadian crown payments	**42**	52
Canadian resource allowance	**(48)**	(60)
Canadian resource allowance on unrealized risk management losses	**18**	17
Statutory and other rate differences	**(15)**	(13)
Effect of tax rate changes		(109)
Non-taxable capital gains	**5**	7
Previously unrecognized capital losses		13
Tax basis retained on dispositions		(80)
Large corporations tax	**4**	4
Other	**2**	(7)
	$ (63)	$ (79)
Effective Tax Rate	**33.5%**	(32.0%)

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7. LONG-TERM DEBT

	As at March 31, 2005	As at December 31, 2004
Canadian Dollar Denominated Debt		
Revolving credit and term loan borrowings	**$ 1,548**	$ 1,515
Unsecured notes and debentures	**1,302**	1,309
	2,850	2,824
U.S. Dollar Denominated Debt		
Revolving credit and term loan borrowings	**326**	399
Unsecured notes and debentures	**4,640**	4,641
	4,966	5,040
Increase in Value of Debt Acquired *	**66**	66
Current Portion of Long-Term Debt	**(187)**	(188)
	$ 7,695	$ 7,742

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* Certain of the notes and debentures of EnCana were acquired in business combinations and were accounted for at their fair value at the dates of acquisition. The difference between the fair value and the principal amount of the debt is being amortized over the remaining life of the outstanding debt acquired, approximately 22 years.

8. ASSET RETIREMENT OBLIGATION

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	As at March 31, 2005	As at December 31, 2004

Asset Retirement Obligation, Beginning of Year	**$**	**611**	$	383
Liabilities Incurred		**30**		98
Liabilities Settled		**(5)**		(16)
Liabilities Disposed				(35)
Change in Estimated Future Cash Flows		**(3)**		124
Accretion Expense		**9**		22
Other		**(3)**		35
Asset Retirement Obligation, End of Period	**$**	**639**	$	611

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9. SHARE CAPITAL

	March 31, 2005		December 31, 2004	
(millions)	**Number**	**Amount**	Number	Amount
Common Shares Outstanding, Beginning of Year	**450.3**	**$ 5,299**	460.6	$ 5,305
Shares Issued under Option Plans	**2.8**	**101**	9.7	281
Shares Repurchased	**(12.3)**	**(190)**	(20.0)	(287)
Common Shares Outstanding, End of Period	**440.8**	**$ 5,210**	450.3	$ 5,299

During the quarter, the Company purchased 12,255,029 Common Shares for total consideration of approximately $760 million. Of the amount paid, $190 million was charged to Share capital, $10 million was charged to Paid in surplus and $560 million was charged to Retained earnings. Included in the above are 1.3 million Common Shares which have been repurchased by a wholly owned Trust and are held for issuance upon vesting of units under EnCana s Performance Share Unit plan (see Note 10).

On October 26, 2004, the Company received regulatory approval for a new Normal Course Issuer Bid commencing October 29, 2004. Under this bid, the Company may purchase for cancellation up to 23,114,500 of its Common Shares, representing five percent of the approximately 462.29 million Common Shares outstanding as of the filing of the bid on October 22, 2004. On February 4, 2005, the Company received regulatory approval for an amendment to the Normal Course Issuer Bid which increases the number of shares available for purchase from five percent of the issued and outstanding Common Shares to ten percent of the public float of Common Shares (a total of approximately 46.1 million Common Shares). The current Normal Course Issuer Bid expires on October 28, 2005.

The Company has stock-based compensation plans that allow employees and directors to purchase Common Shares of the Company. Option exercise prices approximate the market price for the Common Shares on the date the options were issued. Options granted under the plans are generally fully exercisable after three years and expire five years after the grant date. Options granted under predecessor and/or related company replacement plans expire up to ten years from the date the options were granted.

The following tables summarize the information about options to purchase Common Shares that do not have Tandem Share Appreciation Rights (TSAR s) attached to them at March 31, 2005. Information related to TSAR s is included in Note 10.

	Stock Options *(millions)*	Weighted Average Exercise Price *(C$)*
Outstanding, Beginning of Year	**18.1**	**46.29**
Exercised	**(2.8)**	**44.34**
Forfeited	**(0.1)**	**43.54**
Outstanding, End of Period	**15.2**	**46.67**
Exercisable, End of Period	**8.0**	**45.43**

	Outstanding Options			**Exercisable Options**	
Range of Exercise Price	Number of Options Outstanding *(millions)*	Weighted Average Remaining Contractual Life *(years)*	Weighted Average Exercise Price *(C$)*	Number of Options Outstanding *(millions)*	Weighted Average Exercise Price *(C$)*
20.00 to 24.99	0.5	3.7	22.84	0.5	22.84
25.00 to 29.99	0.2	1.9	26.20	0.2	26.20
30.00 to 43.99	0.3	1.6	40.00	0.3	39.61
44.00 to 53.00	14.2	2.2	48.01	7.0	47.92
	15.2	2.3	46.67	8.0	45.43

EnCana has recorded stock-based compensation expense in the Consolidated Statement of Earnings for stock options granted to employees and directors in 2003 using the fair-value method. Stock options granted in 2004 and 2005 have an associated Tandem Share Appreciation Right attached. Compensation expense has not been recorded in the Consolidated Statement of Earnings related to stock options granted prior to 2003. If the Company had applied the fair-value method to options granted prior to 2003, pro forma Net Earnings and Net Earnings per Common Share for the three months ended March 31, 2005 would be unchanged (2004 - $281 million; $0.61 per common share - basic; $0.60 per common share - diluted).

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10. COMPENSATION PLANS

The tables below outline certain information related to EnCana s compensation plans at March 31, 2005. Additional information is contained in Note 16 of the Company s annual audited Consolidated Financial Statements for the year ended December 31, 2004.

A) Pensions
The following table summarizes the net benefit plan expense:

	Three Month Ended March 31, **2005**	2004
Current Service Cost	**$ 2**	$ 2
Interest Cost	**3**	3
Expected Return on Plan Assets	**(3)**	(3)
Amortization of Net Actuarial Loss	**1**	1
Amortization of Transitional Obligation	**(1)**	(1)
Amortization of Past Service Cost	**1**	
Expense for Defined Contribution Plan	**5**	3
Net Benefit Plan Expense	**$ 8**	$ 5

The Company previously disclosed in its annual audited Consolidated Financial Statements for the year ended December 31, 2004 that it expected to contribute $6 million to its defined benefit pension plans in 2005. At March 31, 2005, no contributions have been made.

B) Share Appreciation Rights (SAR s)
The following table summarizes the information about SAR s at March 31, 2005:

	Outstanding SAR's	**Weighted Average Exercise Price**
Canadian Dollar Denominated ***(C$)***		
Outstanding, Beginning of Year	**465,255**	**36.61**
Exercised	**(268,558)**	**29.81**

Outstanding, End of Period	**196,697**	**45.89**
Exercisable, End of Period	**196,697**	**45.89**
U.S. Dollar Denominated ***(US$)***		
Outstanding, Beginning of Year	**385,930**	**28.80**
Exercised	**(73,760)**	**28.99**
Outstanding, End of Period	**312,170**	**28.75**
Exercisable, End of Period	**312,170**	**28.75**

During the quarter, EnCana recorded compensation costs of $9 million related to the outstanding SAR s (2004 - $2 million).

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Interim Report
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10. COMPENSATION PLANS (continued)

C) Tandem Share Appreciation Rights (TSAR s) (continued)
The following table summarizes the information about Tandem SAR s at March 31, 2005

	Outstanding TSAR s	Weighted Average Exercise Price
Canadian Dollar Denominated ***(C$)***		
Outstanding, Beginning of Year	**867,500**	**55.54**
Granted	**3,262,806**	**76.51**
Exercised	**(12,300)**	**52.99**
Forfeited	**(69,620)**	**60.59**
Outstanding, End of Period	**4,048,386**	**72.35**
Exercisable, End of Period	**38,595**	**53.85**

During the quarter, EnCana recorded compensation costs of $5 million related to the outstanding TSAR s (2004 nil).

D) Deferred Share Units (DSU s)
The following table summarizes the information about DSU s at March 31, 2005

	Outstanding DSU s	Weighted Average Exercise Price
Canadian Dollar Denominated ***(C$)***		
Outstanding, Beginning of Year	**375,306**	**49.61**
Granted, Directors	**23,806**	**85.43**
Units, in Lieu of Dividends	**562**	**85.43**
Outstanding, End of Period	**399,674**	**51.79**
Exercisable, End of Period	**318,208**	**55.05**

During the quarter, EnCana recorded compensation costs of $5 million related to the outstanding DSU s (2004 $3 million).

E) Performance Share Units (PSU s)

The following table summarizes the information about PSU s at March 31, 2005:

	Outstanding PSU s	Weighted Average Exercise Price
Canadian Dollar Denominated *(C$)*		
Outstanding, Beginning of Year	**1,647,103**	**53.42**
Granted	**852,941**	**76.51**
Forfeited	**(14,277)**	**56.48**
Outstanding, End of Period	**2,485,767**	**61.32**
Exercisable, End of Period		
U.S. Dollar Denominated *(US$)*		
Outstanding, Beginning of Year	**224,615**	**41.12**
Granted	**193,193**	**61.95**
Forfeited	**(8,163)**	**55.07**
Outstanding, End of Period	**409,645**	**50.66**
Exercisable, End of Period		

During the quarter, EnCana recorded compensation costs of $14 million related to the outstanding PSU s (2004 nil).

At March 31, 2005, EnCana has approximately 1.3 million Common Shares held in trust for issuance upon vesting of the PSU s.

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11. PER SHARE AMOUNTS

The following table summarizes the Common Shares used in calculating Net Earnings per Common Share:

(millions)		Three Months Ended March 31, **2005**	2004
Weighted Average Common Shares Outstanding	Basic	**445.9**	460.9
Effect of Dilutive Securities		**8.6**	6.2
Weighted Average Common Shares Outstanding	Diluted	**454.5**	467.1

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As discussed in Note 2 to the annual audited Consolidated Financial Statements for the year ended December 31, 2004, on January 1, 2004, the fair value of all outstanding financial instruments that were not considered accounting hedges was recorded in the Consolidated Balance Sheet with an offsetting net deferred loss amount (the transition amount). The transition amount is recognized into net earnings over the life of the related contracts. Changes in fair value after that time are recorded in the Consolidated Balance Sheet with an associated unrealized gain or loss recorded in net earnings. The estimated fair value of all derivative instruments is based on quoted market prices or, in their absence, third party market indications and forecasts.

At March 31, 2005, a net unrealized gain remains to be recognized over the next four years as follows:

	Unrealized Gain (Loss)
2005	
Three months ended June 30, 2005	$ 14
Three months ended September 30, 2005	9
Three months ended December 31, 2005	9
Total remaining to be recognized in 2005	$ 32

2006	$	24
2007		15
2008		1
Total to be recognized in 2006 through to 2008	$	40
Total to be recognized	$	72
Total to be recognized Continuing Operations	$	73
Total to be recognized Discontinued Operations		(1)
	$	72

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
The following table presents a reconciliation of the change in the unrealized amounts from January 1, 2005 to March 31, 2005:

	Net Deferred Amounts Recognized on Transition	Fair Market Value	Total Unrealized Gain (Loss)
Fair Value of Contracts, Beginning of Year	$ (72)	$ (189)	
Change in Fair Value of Remaining Contracts in Place at Transition		(2)	$ (2)
Fair Value of Contracts Entered into Since January 1, 2004		(987)	(987)
Fair Value of Contracts Outstanding	$ (72)	$ (1,178)	$ (989)
Unamortized Premiums Paid on Collars and Options		90	
Fair Value of Contracts Outstanding and Premiums Paid, End of Period		$ (1,088)	
Amounts Allocated to Continuing Operations	$ (73)	$ (996)	$ (969)
Amounts Allocated to Discontinued Operations	1	(92)	(20)
	$ (72)	$ (1,088)	$ (989)

The total realized loss recognized in net earnings from continuing operations for the three months ended March 31, 2005 was $10 million ($15 million, before tax).

At March 31, 2005, the net deferred amounts recognized on transition and the risk management amounts are recorded in the Consolidated Balance Sheet as follows:

		As at March 31, 2005
Remaining Deferred Amounts Recognized on Transition		
Accounts receivable and accrued revenues	$	3
Investments and other assets		1
Accounts payable and accrued liabilities		40
Other liabilities		37
Net Deferred Gain Continuing Operations	$	73
Net Deferred Loss Discontinued Operations		(1)
	$	72
Risk Management		
Current asset	$	159
Long-term asset		72
Current liability		826
Long-term liability		401
Net Risk Management Liability Continuing Operations	$	(996)
Net Risk Management Liability Discontinued Operations		(92)
	$	(1,088)

A summary of all unrealized estimated fair value financial positions is as follows:

		As at March 31, 2005
Commodity Price Risk		
Natural gas	$	(739)
Crude oil		(285)
Power		5
Interest Rate Risk		23
Total Fair Value Positions Continuing Operations	$	(996)
Total Fair Value Positions Discontinued Operations		(92)
	$	(1,088)

Information with respect to power and interest rate risk contracts in place at December 31, 2004 is disclosed in Note 17 to the Company s annual audited Consolidated Financial Statements. No significant new contracts have been entered into as at March 31, 2005.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
Natural Gas

At March 31, 2005, the Company s gas risk management activities from financial contracts had an unrealized loss of $798 million and a fair market value position of $(739) million. The contracts were as follows:

	Notional Volumes *(MMcf/d)*	Term	Average Price		Fair Market Value
Sales Contracts					
Fixed Price Contracts					
NYMEX Fixed Price	485	2005	6.43	US$/Mcf$	(194)
Colorado Interstate Gas (CIG)	114	2005	4.87	US$/Mcf	(68)
Other	110	2005	5.21	US$/Mcf	(65)
NYMEX Fixed Price	525	2006	5.66	US$/Mcf	(373)
Colorado Interstate Gas (CIG)	100	2006	4.44	US$/Mcf	(87)
Other	171	2006	4.85	US$/Mcf	(144)
Collars and Other Options					
Purchased NYMEX Put Options	901	2005	5.47	US$/Mcf	(53)
NYMEX 3-Way Call Spread	180	2005	5.00/6.69/7.69	US$/Mcf	(39)
Purchased NYMEX Put Options	210	2006	5.00	US$/Mcf	(15)
Basis Contracts					
Fixed NYMEX to AECO Basis	881	2005	(0.66)	US$/Mcf	54
Fixed NYMEX to Rockies Basis	254	2005	(0.48)	US$/Mcf	21
Other	474	2005	(0.49)	US$/Mcf	7
Fixed NYMEX to AECO Basis	703	2006	(0.65)	US$/Mcf	54
Fixed NYMEX to Rockies Basis	312	2006	(0.57)	US$/Mcf	18
Fixed NYMEX to CIG Basis	279	2006	(0.83)	US$/Mcf	(5)

Other	182	2006	(0.36)	US$/Mcf	3
Fixed Rockies to CIG Basis	12	2007	(0.10)	US$/Mcf	
Fixed NYMEX to AECO Basis	345	2007-2008	(0.65)	US$/Mcf	36
Fixed NYMEX to Rockies Basis	252	2007-2008	(0.58)	US$/Mcf	23
Fixed NYMEX to CIG Basis	115	2007-2009	(0.69)	US$/Mcf	6
Purchase Contracts					
Fixed Price Contracts					
Waha Purchase	27	2005	5.90	US$/Mcf	11
Waha Purchase	23	2006	5.32	US$/Mcf	15
					(795)
Other Financial Positions [1]					(3)
Total Unrealized Loss on Financial Contracts					(798)
Unamortized Premiums Paid on Options					59
Total Fair Value Positions				$	(739)

(1) Other financial positions are part of the ongoing operations of the Company s proprietary production management and gas storage optimization activities.

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12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
Crude Oil

At March 31, 2005, the Company s oil risk management activities from financial contracts had an unrealized loss of $408 million and a fair market value position of $(377) million. The contracts were as follows:

	Notional Volumes *(bbl/d)*	Term	Average Price *(US$/bbl)*	Fair Market Value
Fixed WTI NYMEX Price	41,000	2005	28.41	$ (311)
Costless 3-Way Put Spread	9,000	2005	20.00/25.00/28.78	(66)
Unwind WTI NYMEX Fixed Price	(4,500)	2005	35.90	25
Purchased WTI NYMEX Call Options	(38,000)	2005	49.76	77
Purchased WTI NYMEX Put Options	35,000	2005	40.00	(16)
Fixed WTI NYMEX Price	15,000	2006	34.56	(109)
Purchased WTI NYMEX Put Options	22,000	2006	27.36	(7)
				(407)
Other Financial Positions [1]				(1)
Total Unrealized Loss on Financial Contracts				(408)
Unamortized Premiums Paid on Options				31
Total Fair Value Positions				$ (377)
Total Fair Value Positions Continuing Operations				(285)
Total Fair Value Positions Discontinued Operations				(92)

$	(377)

(1) Other financial positions are part of the ongoing operations of the Company s proprietary production management.

13. RECLASSIFICATION
Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2005.

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