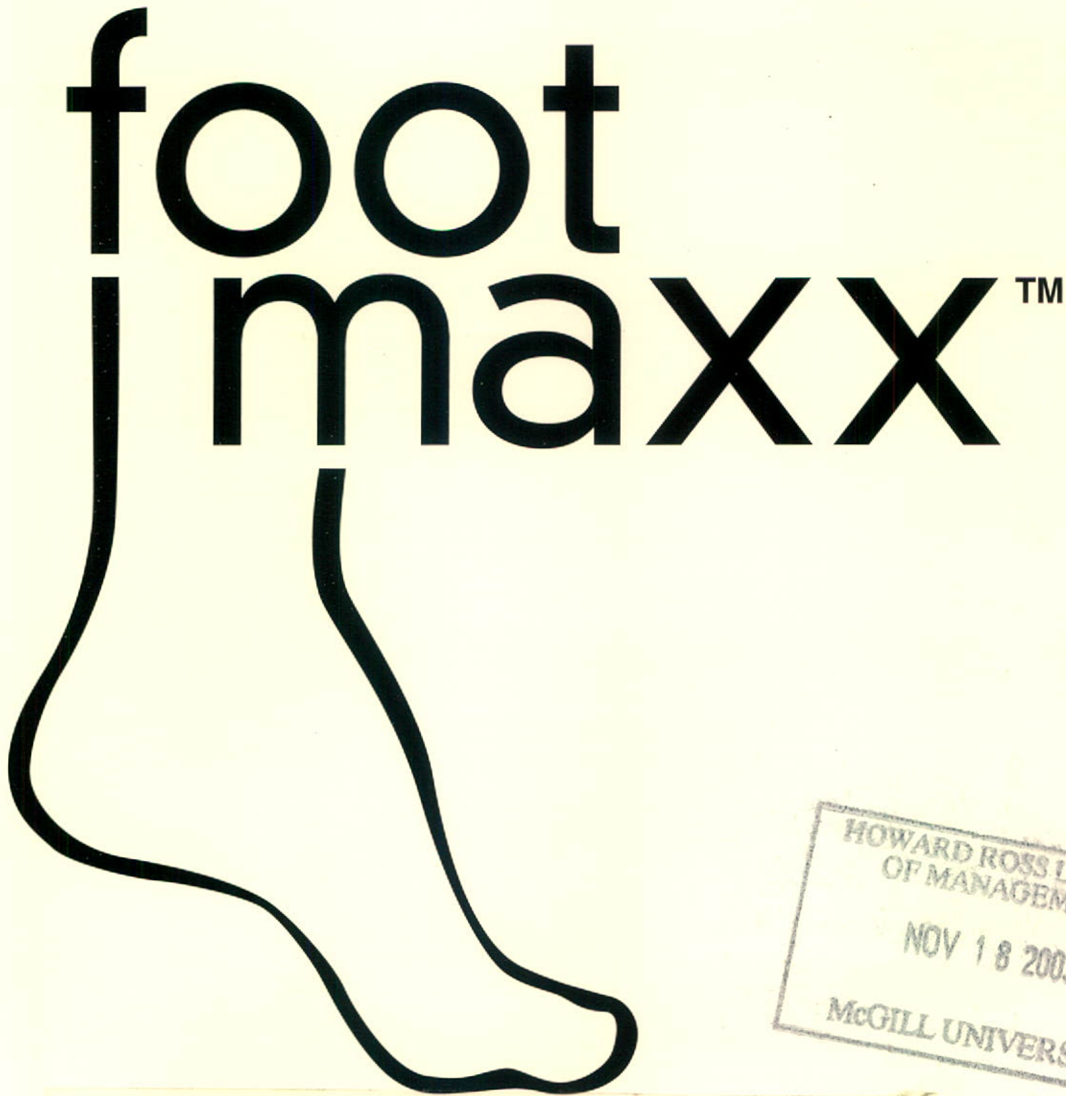
ANNUAL REPORT

2002



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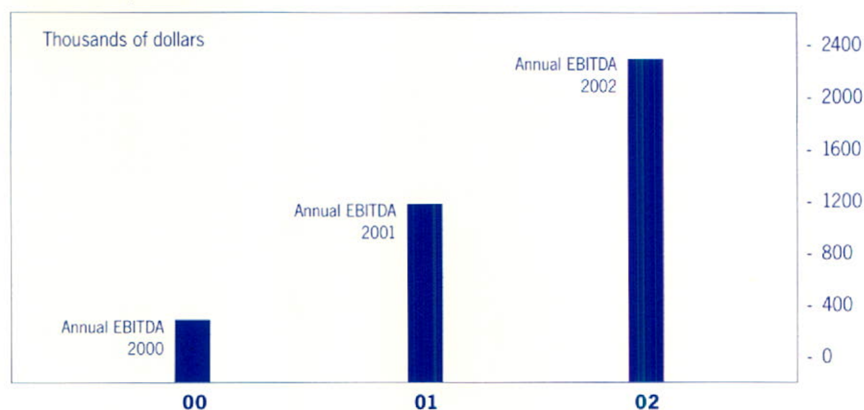
www.footmaxx.com

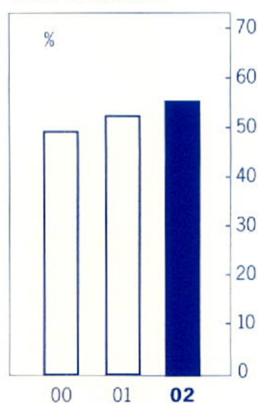
Financial Highlights

For the years ended December 31	Results of Operation 2002	2001	2000
Sales	$ 15,397,253	$ 13,850,702	$ 14,123,721
Gross Profit	8,658,515	7,642,798	7,347,462
Gross Profit %	56.2%	55.18%	52.02%
EBITDA*	2,158,146	1,045,588	315,339
Earning (Loss) Before Income Taxes	35,844	(1,602,484)	(2,202,750)
Income (Loss) For Year	(56,322)	(1,602,484)	(2,202,750)
Income (Loss) Per Share	$ 0.00	$ (0.04)	$ (0.06)

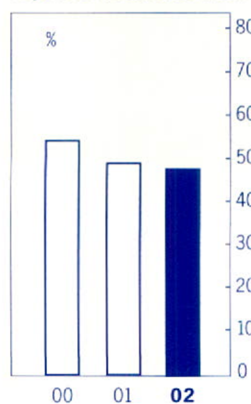
EBITDA 2000, 2001 & 2002



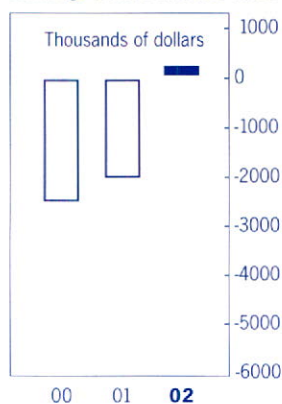
Gross Profit Ratio



Expenses to Revenue Ratio



Earnings Before Income Taxes



*EBITDA is calculated by taking Net Loss and adding back interest, taxes, depreciation and amortization. Amortization includes inventory allowance on revenue generating systems.

Footmaxx produces and globally markets a unique, computerized gait and pressure analysis system that analyzes dynamic, weight bearing foot function (walking) and produces a computer-generated Gait & Pressure Analysis Reports and Prescription Foot Orthotics (custom insoles worn in shoes).

Traditional orthotics are generated from static molds of a person's feet, usually from plaster casts or foam molds. The static mold cannot take into account gait, foot motion or foot pressure. Footmaxx's technology focuses on a dynamic approach through a computerized analysis that greatly increases the accuracy and efficacy of the orthotics.

Using medical research combined with years of clinical experience, the Footmaxx System records and analyzes the unique way each person's foot moves and distributes the body's weight. The procedure is simple, clean and can be done in less than 5 minutes, utilizing the proprietary Footmaxx equipment and software located at the clinic. A person simply walks across a pressure plate. Electronic measurement points, capturing the foot in motion, scan each foot. The clinic's Footmaxx system forwards data from the scan via modem to the Footmaxx diagnostic and manufacturing laboratory where it is analyzed by proprietary Footmaxx software, Metascan™. Metascan™ determines how best to construct the custom orthotics to meet the patient's needs. Custom corrective orthotics are then manufactured to adjust the gait back to normal.

Footmaxx orthotics are used in the treatment and prevention of many foot related problems that can affect the ankle, knee, hip and lower back. Footmaxx orthotics are also effectively used in treating foot problems such as plantar fasciitis, bunions, as well as medical conditions such as arthritis and diabetes or as a means for correcting poor biomechanics and gait alignment. Footmaxx orthotics have been used to successfully treat over 600,000 patients.

In addition, Footmaxx offers a line of Sportmaxx orthotics specifically designed for professional athletes. Each design is uniquely crafted to meet the different requirements of the individual sport. Sportmaxx orthotics are used by the majority of teams in Major League Baseball, the National Football League, the National Basketball League the National Hockey League, and other professional, elite, amateur and collegiate athletes.

By using leading edge technology, providing streamlined practice management tools and meeting the highest quality standards available, Footmaxx delivers value through excellence and innovation in its products and services. As one of the world's leading foot health companies, Footmaxx is dedicated to the highest standard of care needed to provide patient relief from foot related and biomechanical problems.

Footmaxx has two manufacturing facilities in Toronto, Canada and Goffstown, New Hampshire, USA to service North American and International customers.

To learn more about our company and products visit our web site: **www.footmaxx.com**

TO OUR SHARE HOLDERS

A GREAT YEAR

2002 has been a milestone year for Footmaxx. In 2002 Footmaxx achieved positive earnings from operations, for the first time in its short history. It is also the third consecutive year, of significant growth and improved profitability.

The company continues to stay its course and execute a strategy of growing revenues and increasing operational efficiency. Footmaxx continues to grow sales volumes and penetrate the market with new system placements to our target customers, Podiatrists, Chiropractors, Orthopaedic Surgeons and Orthopaedic and Prosthetic Laboratories.

Our gross profit margins and ratio of operating expenses to revenue continue to improve year over year as we refine our operations and take advantage of the technology platform and operational strategy we implemented in 2001.

Lenny Simak
President/C.E.O.

In 2002 we completed field-testing of our latest (4th version) clinician software, V4. The software was introduced to clinicians in the last quarter of 2002. The proprietary V4 software is designed to function with Footmaxx's proprietary internal processing and diagnostic software programs, Arwen and Metascan. The new client software will increase our value to the clinicians we service and in the treatment of their patients

New products launched through 2001, including a non-prescription orthotic line, graphite heel cups, sandal wear and electronic transmission of Footmaxx's proprietary 8 point diagnostic report (e-gait), continued to increase revenues with existing customers and enhance our selling proposition to new potential clinicians.

Footmaxx continued to expand its association and supply of orthotics to professional and collegiate sports teams. This area provides an invaluable source of information for product development. Our orthotics are supplied to the majority of Major League Baseball, NFL, NBA, and NHL teams, as well as many elite athletes and collegiate teams.

We continue to grow our sales and distribution capabilities outside of North America. We believe that certain countries have the same profile as North America and thus represent a strong opportunity for growth and acceptance of the Footmaxx System.

THE FUTURE FOR FOOTMAXX

In May of 2002, the company restructured its debt. Our major investors and lenders, who are well established firms, have been very supportive. Footmaxx's new financial structure along with its revenue and profit growth have allowed Footmaxx to improve its long term prospects.

The Company continues to be well positioned as we enter 2003. With an aging and ever more active and growing population, the market for an efficient system to help diagnose and prescribe foot orthotics is unprecedented. Footmaxx, with it's proven proprietary technology and efficient operating platform to leverage from, is poised not only to take advantage of the market growth, but also to expand the Company's overall market share.

Lenny Simak
President and Chief Executive Officer

REVENUES

Revenues for the fiscal year 2002 increased by 11.1% or $1,546,551 over 2001, from $13,850,702 to $15,397,253. Custom orthotics, the company's core product line, was the primary contributor to overall revenue growth. The custom orthotics volume grew by 8.0% in 2002. In addition to the custom orthotic volume increases, the release of the company's new version V4 software in the fourth quarter of 2002, helped increase revenue from systems placements, which contributed approximately 2% to overall sales growth. The balance of the improvement was the result of favorable exchange rates.

Revenues in the United States increased by 13%, Canada by 6.6%, and Internationally business by 57% over the revenues achieved in 2001. Custom orthotics volume increased in all regions, with the United States market leading the way at 11%.

GROSS PROFIT

Gross Profit increased by 13.3% or $1,015,717 in 2002 from $7,642,798 to $8,658,515. Gross profit margin increased 1.1% from 55.1% in 2001, to 56.2% in 2002. In 2002 the manufacturing operation incurred cost increases in freight and labor that were primarily the result of inflation. In late 2002, steps were taken to reduce freight costs in both the United States and Canada. For 2002, increased manufacturing costs were more than offset by a reduction in the depreciation of revenue generating systems, as these systems were fully depreciated.

OPERATING EXPENSES

Selling and Administrative expenses increased by 13.8% or $819,872 to $6,743,726. Included in the increase is approximately $300,000 of costs related to the Company's exploring various financing opportunities and $72,000 in compensation expenses related to the share issue, as per note 8. In addition, the company incurred $150,000 in tax preparation and franchise tax related costs. The Company also invested approximately $300,000 in additional sales promotion for 2002, in order to support continued growth in revenues.

Research and Development costs decreased by $104,523 from $974,726 in 2001 to $870,203 in 2002. The decrease in expenses, relates principally to completion of the AS/400 computer lease and headcount reductions.

EARNINGS (LOSS) BEFORE INCOME TAXES

For the first time in its short history, the company achieved positive earnings before income taxes of $35,844. This was the result of the growth in revenues, as well as the favorable impact of the discount on the retirement of a portion of Debenture II.

NET INCOME

Net loss for the year 2002 was $56,322, an improvement of $1,546,162, over the loss in 2001. Earnings before income taxes of $35,844, was reduced by $92,166 due to minimum state income taxes incurred and payable for both 2001 and 2002.

CASH FLOW

During 2002 the Company continued to focus on cost control. Cash flows decreased on a year over year basis by $150,140. However, during 2002, $95,000 was used to reduce the companies bank line of credit.

CAPITAL RESOURCES & LIQUIDITY

On May 31, 2002 the Company was able to secure mezzanine financing to replace a portion of the outstanding debentures as detailed in notes 5 & 6 of the financial statements. In completing the restructuring, the primary debenture holders showed their commitment to the company, by contributing an additional $1,000,000 in the form of a new series of convertable debentures. With this new structure all of the Company's long term financing is now on a five-year term, thereby addressing the Company's short-term liquidity concerns.

Footmaxx Holdings Inc.
Quarterly Earnings Financial Comparison 2002 versus 2001

	2002				2001			
(000's) $CDN	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$3,801.6	$4,028.0	$3,810.8	$3,756.9	$3,358.9	$3,460.6	$3,483.4	$3,547.8
(Net Loss) Income	(302.7)	495.6	(55.4)	(193.8)	(797.0)	(45.3)	(292.1)	(468.1)
Earnings (Loss Per Share)	0.00	0.1	0.00	(0.01)	(0.02)	0.00	(0.01)	(0.01)

* EBITDA is calculated by taking Net Loss and adding back interest, taxes, depreciation and amortization. Amortization includes inventory allowance on revenue generating systems.

** Operating expenses exclude interest on convertible debentures, amortization, and write-offs.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Footmaxx Holdings Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Chartered Accountants

Toronto, Canada
April 29, 2003

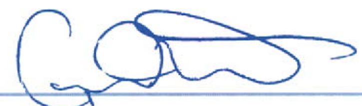
Consolidated Balance Sheets

December 31, 2002 and 2001	2002	2001
Assets		
Current assets:		
Cash	$ 94,272	$ 244,412
Accounts receivable, net	1,661,256	1,547,029
Inventory (note 2)	659,973	396,742
Other assets	173,135	42,620
	2,588,636	2,230,803
Capital assets (note 3)	1,314,238	1,558,735
Goodwill (note 1 (d))	–	204,089
Deferred financing costs (note 1(h))	410,691	–
	$ 4,313,565	**$ 3,993,627**
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank indebtedness (note 4)	$ 252,000	$ 347,000
Accounts payable and accrued liabilities	1,166,433	1,006,301
Current portion of long-term debt (note 6)	888,888	–
	2,307,321	1,353,301
Long-term debt (note 6)	3,187,630	–
Convertible debentures (note 5)	11,489,149	15,121,983
Shareholders' deficiency:		
Capital stock (note 7)	22,316,239	22,244,706
Deficit	(34,986,774)	(34,726,363)
	(12,670,535)	(12,481,657)
	$ 4,313,565	**$ 3,993,627**

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director



Director

Footmaxx Holdings Inc.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2002 and 2001	2002	2001
Sales	$ 15,397,253	$ 13,850,702
Cost of goods sold	6,676,860	5,787,904
Gross profit before undernoted	8,720,393	8,062,798
Inventory allowance on consigned revenue-generating systems	61,878	420,000
Gross profit	8,658,515	7,642,798
Expenses:		
Selling and administration	6,743,726	5,923,884
Research and development	870,203	974,726
Discount on debenture payout	(1,051,682)	–
Accrued interset on convertible debentures	918,848	1,620,756
Interest on long-term debt	509,622	–
Other interest	20,836	78,288
Amortization of capital assets	556,876	529,028
Amortization of deferred financing costs	54,242	–
Write-off of computer software	–	118,600
	8,622,671	9,245,282
Earnings (loss) before income taxes	35,844	(1,602,484)
Income taxes (note 11)	92,166	–
Loss for the year	(56,322)	(1,602,484)
Deficit, beginning of year	(34,726,363)	(33,123,879)
Write off of goodwill (note 1(d))	(204,089)	–
Deficit, end of year	**$ (34,986,774)**	**$ (34,726,363)**
Basic and diluted loss per common share (note 9)	**$ –**	**$ (0.04)**

See accompanying notes to consolidated financial statements.

Years ended December 31, 2002 and 2001	2002	2001
Cash flows from (used in) operating activities:		
Loss for the year	$ (56,322)	$ (1,602,484)
Items not involving cash:		
Amortization of capital assets	556,876	529,028
Amortization of deferred financing costs	54,242	–
Inventory allowance	61,878	420,000
Write-off of computer software	–	118,600
Interest on convertible debentures	918,848	1,620,756
Imputed interest on long-term loan (note 6)	150,592	–
Discount on payout of Series II and III debentures (note 5)	(1,051,682)	–
Stock compensation expense	71,533	–
	705,965	1,085,900
Change in other non-cash working capital:		
Decrease (increase) in accounts receivable	(114,227)	181,427
Decrease (increase) in inventory	(325,109)	58,947
Decrease in other assets	(130,515)	(4,787)
Increase (decrease) in accounts payable and accrued liabilities	160,132	(177,334)
	(409,719)	1,144,153
Cash flows from (used in) financing activities:		
Decrease in bank indebtedness	(95,000)	(860,000)
Partial repayment of convertible Series II and III debentures	(4,500,000)	–
Proceeds of Series IV debentures	1,000,000	–
Proceeds of long-term debt	4,000,000	–
Repayments on long-term debt	(74,074)	–
Deferred financing costs	(464,933)	–
	(134,007)	(860,000)
Cash flows used in investing activities:		
Purchase of capital assets	(312,379)	(222,678)
Increase (decrease) in cash	(150,140)	61,475
Cash, beginning of year	244,412	182,937
Cash, end of year	**$ 94,272**	**$ 244,412**
Supplemental cash flow information:		
Interest paid	$ 20,836	$ 78,288
Interest paid on long-term debt	$ 329,863	$ –

See accompanying notes to consolidated financial statements

The Company is in the business of manufacturing, distributing and selling foot orthotics and associated computer systems for specifying custom foot orthotics in Canada and internationally.

1. Significant account policies:

(a) Basis of presentation:

The accompanying consolidated financial statements include the accounts of Footmaxx Holdings Inc. and its wholly owned subsidiaries, Footmaxx International Inc., Footmaxx Limited and Footmaxx Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has continued on its positive trend, achieving positive earnings from operations for the first time in the year 2002. These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern. The Company's ability to continue as a going concern is dependent upon the Company being able to meet its financial covenant test (note 6), its ability to continue the trend towards improved profitability and/or the continued support of its lenders.

(b) Inventory:

Inventory is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

Computer footmats and the associated computer hardware (revenue-generating systems) that are intended for resale are included in inventory.

An inventory allowance is applied by the Company on unsold revenue-generating systems at year end to write down the cost of the inventory to its market value based on their estimated useful lives as follows:

Computer footmats	5 years
Computer hardware	2 years

1. Significant accounting policies (continued):

(c) Capital assets

Capital assets are recorded at cost less accumulated amortization. Rates and basis of amortization applied by the Company to write off the cost of the capital assets over their estimated useful lives, on a straight-line basis are as follows:

Leasehold improvements	10 years
Furniture, fixtures and equipment	10 years
Computer hardware	2 - 5 years
Computer software	2 - 5 years
Dies and moulds	20 years

(d) Goodwill:

Goodwill was acquired on the purchase of a division of a private company and was previously amortized on a straight-line basis over 20 years.

In September 2001, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, Goodwill and Other Intangible Assets. The new standard requires that goodwill no longer be amortized but instead be tested for impairment at least annually. The Company has adopted this new standard as of January 1, 2002.

1. Significant accounting policies (continued):

Effective January 1, 2002, the Company had unamortized goodwill of $204,089. The Company has carried out an initial impairment review for purposes of adoption of the new standard on accounting for goodwill and as a result has written off this balance to opening retained earnings as of January 1, 2002. This change in accounting policy has not been applied retroactively and the amounts presented for prior periods have not been restated for this change. To enable consistent comparison to prior periods, the following selected pro forma financial information is provided for 2001, assuming no goodwill amortization for 2001:

		2001
Loss for the year	$	(1,602,484)
Goodwill		14,578
Pro forma loss	**$**	**(1,587,906)**
Loss per share:		
Basic and diluted	$	(0.04)
Pro forma loss per share:		
Basic and diluted	$	(0.04)

(e) Translation of foreign currency:

Foreign currency transactions and account balances have been translated, where applicable, into Canadian dollars as follows:

(i) Current assets and liabilities are translated into Canadian dollars at rates of exchange at year end;
(ii) Revenue and expenses are translated into Canadian dollars at the average monthly rates of exchange; and
(iii) Realized and unrealized foreign exchange gains and losses are included in earnings.

1. Significant accounting policies (continued):

The results of foreign operations which are financially and operationally integrated with the Company are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rates of exchange prevailing at year end. Capital assets have been translated at the rates prevailing at the dates of acquisition. Amortization is translated at the rates prevailing when the related assets were acquired. Revenue and expense items, other than amortization, are translated at the average rates of exchange for the year. Any exchange gains or losses are recorded in income.

(f) Research and development:

Research costs are expensed in the year in which they are incurred. Development costs are expensed in the year incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To date, there have been no deferred development costs.

(g) Stock options:

The Company has the ability to grant stock options. No expense is recognized when stock options are granted. The consideration paid to the Company on the exercise of stock options is recorded in share capital.

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of all other types of stock options issued to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The new standard requires that, for such stock option awards, the effect on reported net earnings be disclosed on a pro forma basis in the notes to the financial statements as if the Company had accounted for these stock option awards under the fair value method.

1. Significant accounting policies (continued):

(h) Deferred financing costs:

Costs incurred to obtain long-term financing are deferred and amortized over the term of such debt.

(i) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date. Future income tax assets are recognized and if realization is not considered, more likely than not, a valuation allowance is provided.

(j) Measurement uncertainty:

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

(k) Comparative figures:

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2002.

Years ended December 31, 2002 and 2001

1. Significant accounting policies (continued):

(l) Recently issued accounting pronouncements:

(i) Impairment or disposal of long-lived assets:

In December 2002, the CICA issued Handbook Section 3063, Impairment or Disposal of Long-Lived Assets, and revised Section 3475, Disposal of Long-Lived Assets and Discontinued Operations. Section 3063 requires that an impairment loss be recognized when the carrying amount of an asset to be held for use exceeds the sum of the undiscounted cash flows expected from its use and disposal; the impairment loss recognized is the amount by which the carrying amount of the asset exceeds its fair value. Section 3475 requires that assets classified as held-for-sale be measured at the lower of their carrying amounts and fair values, less costs to sell. The Company intends to adopt these standards as of January 1, 2003, but anticipates the new standard will not have any material impact on the Company's financial statements.

(ii) Hedging relationships:

Accounting Guideline 13, Hedging Relationships, establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. The guidelines requires that for hedges to qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. Currently the Company does not have any outstanding hedging relationships and as such anticipates that this standard will not have any impact on the Company's financial position, cash flows and results of operations.

1. Significant accounting policies (continued):

(iii) Asset retirement obligation:

In March 2003, the CICA issued Handbook Section 3110, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Section 3110 requires the Company to record the fair value of an asset requirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal operation of the assets. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The Company anticipates that this new standard will have no impact to the consolidated financial statements.

(iv) Guarantees:

In February, 2003, the CICA issued Accounting Guideline ("AcG 14"), requiring the disclosure of guarantees and will be applicable to annual and interim periods on or after January 1, 2003. The guideline requires that a guarantor disclose significant information about certain types of guarantees that require payment contingent on specified types of future events, without regard to the probability that it will have to make any payments under the guarantees. The Company intends to adopt this guideline as of January 1, 2003.

2. Inventory:

		2002		2001
Computer footmats and hardware	$	161,486	$	92,524
Orthotic raw materials and components		328,375		241,483
Resale products, non-prescription insoles and sandal chassis		170,112		62,735
	$	**659,973**	$	**396,742**

Years ended December 31, 2002 and 2001

3. Capital assets:

			2002	2001
			Accumulated	Net bookNet book
	Cost	amortization	value	value
Leasehold improvements	$ 480,451	$ 265,235	$ 215,216	$ 264,314
Furniture, fixtures				
and equipment	1,012,380	543,994	468,386	572,750
Computer hardware	1,374,161	1,145,721	228,440	256,771
Computer software	1,208,643	1,072,510	136,133	173,303
Dies and moulds	510,432	244,369	266,063	291,597
	$ 4,586,067	**$ 3,271,829**	**$ 1,314,238**	**$ 1,558,735**

4. Bank indebtedness:

The bank indebtedness consists of an operating line of credit which bears interest at Royal Bank prime plus 1.5% and is repayable on demand. The bank credit facilities are secured by a general security agreement covering all assets. In addition, the line of credit has financial covenants related to tangible net worth and quarterly earnings before interest, taxes, depreciation and amortization ("EBITDA") targets. The Company did not meet its EBITDA covenant for December 31, 2002. The bank has provided a tolerance letter to March 31, 2003.

As at March 31, 2003, management has performed the covenant calculation and found the Company to be in compliance.

5. Convertible debentures:

The convertible debentures consist of Series I debentures with a face value of $6,556,530, Series II debentures with a face value of $1,233,149 (after repayment as disclosed in note 6), Series III debentures with a face value of $1,116,480 and Series IV debentures with a face value of $1,000,000. These convertible debentures mature on June 30, 2007. Series I is now interest free as of March 31, 2002. Series II bears interest at 24%, Series III 12% and Series IV 14%. All interest is compounded quarterly in arrears. As at December 31, 2002, interest of $1,582,990 has accrued on these convertible debentures and is included in the value of convertible debentures.

5. Convertible debentures (continued):

The principal and accrued interest are convertible into common shares. The Series I debentures are convertible into 73,794,334 common shares of the Company at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series II debentures are convertible into 16,530,350 common shares of the Company at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series III debentures are convertible into 13,731,300 shares at a conversion price of $0.10 per common share. The Series IV debentures are convertible into 10,835,510 common shares at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. Series IV are ranked senior to all other debentures but junior to the Penfund loan. Series II and Series III debentures rank pari passu and rank senior in repayment to the Series I debentures. The convertible debentures are secured by a floating charge with respect to all of the Company's undertaking and business and all its property, assets and rights.

No amount has been assigned to the equity component of these financial instruments as the conversion option, at the time of issuance, had a nominal value.

The convertible debentures are held primarily by four shareholders of the Company. In addition, these same shareholders would have $1,582,990 in accrued interest owing to them as at December 31, 2002.

On May 31, 2002, the Company redeemed a portion ($5,551,682 - principal and accrued interest) of the Series II debentures. The outstanding total value of these debentures at May 31, 2002 was $6,165,747 plus accrued interest of $571,731. The Company was required to pay $4,500,000 on May 31, 2002 in order to redeem the principal and interest of $5,551,682. This transaction resulted in a $1,051,682 discount on redemption of debentures. In order to repay the debentures, the Company secured a long-term loan for $4,000,000 and obtained an additional debenture (Series IV) of $1,000,000. The Company incurred legal and deferred financing costs of $464,933 to secure the loan.

Years ended December 31, 2002 and 2001

6. Long-term debt:

On May 31, 2002, the Company secured a loan for $4,000,000 from Penfund Inc. to facilitate the redemption of the majority of the Series II debentures. This loan matures on May 31, 2007 and bears annual interest at a rate of 14% paid monthly. In addition, there are bonus interest payments to be paid on the yearly anniversary of the loan. These payments are $50,000 for 2003, $100,000 for 2004, $150,000 for 2005, $300,000 for 2006 and $425,000 for 2007. Factoring these bonus interest payments into account, the effective interest rate is approximately 23.2%. The imputed bonus interest accrued to long-term debt for the year is $150,592. During the year, the Company repaid principal of $74,074.

Future principal payments on the Penfund loan are due as follows:

2003	$	888,888
2004		888,888
2005		888,888
2006		888,888
2007		370,374
	$	**3,925,926**

7. Capital stock:

		2002		2001
Authorized:				
Unlimited Class A preferred shares, voting, cumulative dividends, if declared, at prime less 1%, non-participating, redeemable and retractable at amount paid thereon plus dividends due, with retraction based upon a retained income formula				
Unlimited Class B preferred shares, issuable in series with rights, privileges, restrictions and conditions to be determined by the directors on issue				
Unlimited common shares				
Issued:				
4,207,847 Class A preferred shares	$	2,103,924	$	2,103,924
37,554,535 common shares (2001 - 35,766,224)		20,212,315		20,140,782
	$	**22,316,239**	**$**	**22,244,706**

8. Stock option plan:

	2002		2001	
	Number of share	Weighted average exercise price	Number of share	Weighted average exercise price
Outstanding, beginning of year	4,036,500	$ 0.68	4,214,500	$ 0.73
Granted	1,730,932	0.10	220,000	0.15
Impact of repricing employee options	–	(0.24)	–	–
Retired	1,150,000	1.14	398,000	0.94
Exercised	1,788,311	0.10	–	–
Outstanding, end of year	**2,829,121**	**0.25**	**4,036,500**	**0.68**
Stock options exercisable, end of year	1,465,638	$ –	1,556,625	$ 0.87
Weighted average remaining contractual life	2.36 years		2.01 years	

The Company grants stock options to employees, directors and members of the advisory board of the Company. The stock options vest over varying time periods from the date of grant to four years and expire approximately five years from the date of grant. During the course of the year, the Company repriced 2,479,500 options.

In November 2002, the Board of Directors granted an additional 1,726,932 options to the President of the Company at an exercise price of $0.10. Simultaneously, the Board approved a loan of $178,831 to the President to allow him to exercise 1,788,311 options. These options vested immediately. These options were exercised on December 30, 2002. On the date of exercise, the fair value of the options was $71,533 and the options were accounted for as a direct award of stock. The loan has no fixed term to repayment, is non-interest bearing and is secured by the value of the shares.

Years ended December 31, 2002 and 2001

9. Loss per common share:

		2002		2001
Loss for the year	$	(56,322)	$	(1,602,484)
Weighted average common shares		37,554,534		35,766,224
Basic and diluted loss per common share	$	–	$	(0.04)

The exercise of stock options which would result in the issuance of 2,829,121 common shares and the conversion of debentures which would result in the issuance of 114,891,494 common shares have not been considered in the calculation of diluted shares since they would be anti-dilutive.

10. Commitments:

Minimum lease payments, excluding property taxes and other costs, are approximately as follows:

2003	$	309,151
2004		311,536
2005		43,871
2006		20,466
2007 and thereafter		15,379

11. Income taxes:

The Company has available non-capital losses carryforward for income tax purposes, the benefit of which has not been recorded, of approximately $20,700,000 (2001 - $20,579,000) to be applied against future years' taxable income. The losses expire as follows:

2003	$	125,000
2004		1,563,000
2005		4,258,000
2006		1,693,000
2007 and thereafter		13,061,000
	$	**20,700,000**

A summary of the principal components of future tax assets calculated in accordance with Canadian accounting principles at December 31 is as follows:

		2002		2001
Future tax assets:				
Non-capital loss carryforwards	$	13,232,082	$	7,110,000
Capital Assets		335,980		–
Accounts receivable		957,084		1,027,000
Financing costs		202,340		29,000
General reserves		79,674		49,000
Interest		4,639,528		1,892,000
		19,446,688		10,107,000
Less valuation allowance		19,416,956		9,804,000
		29,732		303,000
Future tax liabilities:				
Goodwill		29,732		50,000
Capital assets		–		253,000
		29,732		303,000
Net future tax assets	**$**	**–**	**$**	**–**

11. Income taxes (continued):

The average statutory Canadian income tax for the year ended December 31, 2002 was 38.63% (2001 - 41.74%). A comparison of nominal provisions at these rates, with the amounts provided in the consolidated financial statements of operations and deficit, is as follows:

		2002		2001
Earnings (loss) before income taxes	$	35,844	$	(1,602,000)
Nominal tax charge (recovery) at average statutory Canadian income tax rates	$	64,500	$	(669,000)
Increase in income taxes resulting from effect of losses, the tax effect of which has not been recognized for accounting purposes		–		669,000
Reduction in income taxes resulting from the recognition of previous non-capital losses		(64,500)		–
State income taxes		92,166		–
Income taxes	$	92,166	$	–

12. Financial instruments:

Interest rate and credit risk:

Interest rates, maturities and security affecting the interest and credit risk of the Company's financial assets and liabilities have been disclosed in notes 4 and 5.

The carrying values of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

Due to the Company's circumstances, the fair value of the debt cannot be reliably determined.

13. Segmented information:

The Company operates in Canada and the United States in one dominant industry segment (foot orthotics and associated computer systems). Revenue is attributed to countries based on location of customer.

	2002	2001
Revenue:		
Canada	$ 5,938,540	$ 5,567,824
United States	9,111,528	8,062,410
Other foreign countries	347,185	220,468
	$ 15,397,253	**$ 13,850,702**

	2002	2001
Capital assets and goodwill:		
Canada	$ 932,623	$ 1,355,809
United States	381,615	407,015
	$ 1,314,238	**$ 1,762,824**

Footmaxx Board of Directors

Michael Decter
Chairman of the Board
Lawrence & Company
Toronto, ON

Lenny Simak
Footmaxx Holdings Inc.
Toronto, ON

Grant McCutcheon
Lawrence & Company
Toronto, ON

Michael Cohen
VenGrowth Capital
Management Inc.
Toronto, ON

Michael A. Kehoe
Innova LifeSciences
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Footmaxx Officers

Lenny Simak
President & CEO

Jon Kelly
Director Finance & IT

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STOCK INFORMATION
YFT (TSX Venture)

STOCK CERTIFICATE CUSIP NUMBER:
344910 20 3

PROVINCE OF INCORPORATION:
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STATE OF INCORPORATION
Footmaxx Inc. Delaware
USA (1996)

REGISTRAR AND TRANSFER AGENT:
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