2001

ANNUAL REPORT

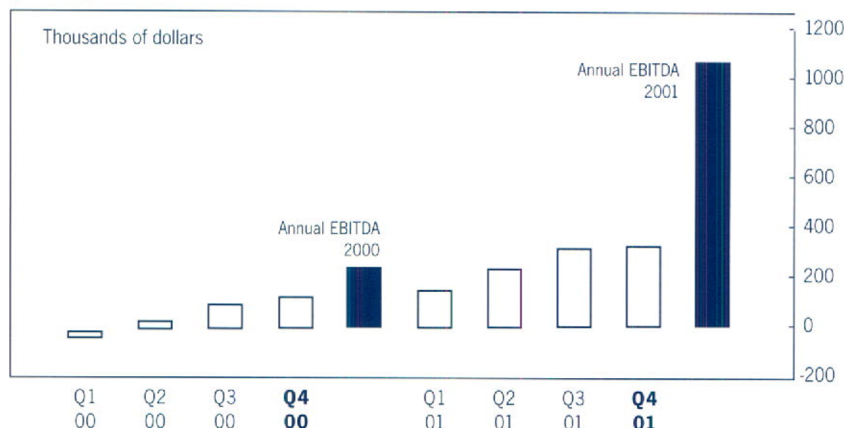
ON SOLID ground

www.footmaxx.com

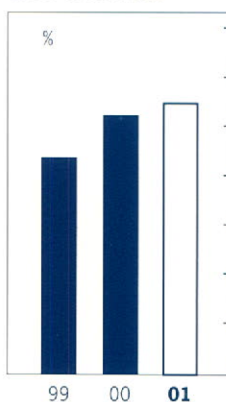
Financial Highlights

For the years ended December 31	Results of Operation 2001	2000	1999
Sales	$ 13,850,702	$ 14,123,721	$ 14,127,137
Gross Profit	7,642,798	7,347,462	6,302,756
Gross Profit %	55.18%	52.02%	44.62%
EBITDA*	1,045,588	315,339	(3,343,708)
Income (Loss) For Year	(1,602,484)	(2,202,750)	(5,916,768)

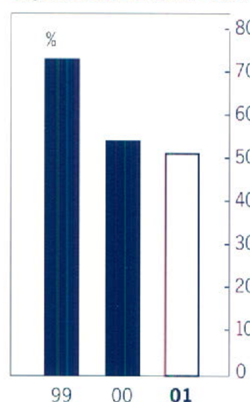
Quarterly EBITDA 2000 & 2001



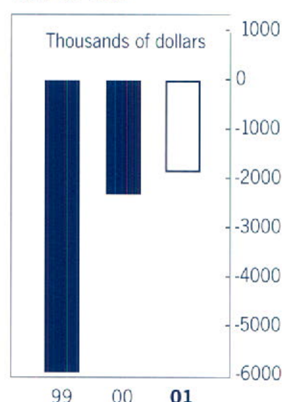
Gross Profit Ratio



Expenses to Revenue Ratio



Loss for Year



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

Footmaxx delivers value through excellence and innovation in their products and services.

Company Profile

Footmaxx produces and globally markets a unique, computerized gait and pressure analysis system that analyzes dynamic, weight-bearing foot function (walking) and produces computer-generated Gait & Pressure Analysis Reports and Prescription Foot Orthotics (custom insoles worn in shoes). 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. A custom corrective orthotic is then manufactured to adjust the gait back to normal. Footmaxx orthotics have been used to successfully treat over 500,000 patients.

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 used in treating foot problems such as Plantar Fasciitis, bunions, medical conditions such as arthritis and diabetes or for correcting poor biomechanics and gait alignment. 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 and the National Hockey League.

Traditional orthotics are generated from static molds of a person's feet, usually from plaster casts or Styrofoam 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. The procedure is simple, clean and can be done in under 5 minutes. A person walks across a pressure plate. Each foot is scanned by 960 electronic measurement points capturing the foot in motion 30 times per second. Data from the scan is sent via modem to the Footmaxx diagnostic and manufacturing laboratory where it is analyzed by the proprietary software, Metascan™. Metascan™ then determines how best to construct custom orthotics to meet the patient's needs.

As one of the world's leading foot health care companies, Footmaxx focuses on advancing the standard of care clinicians can provide to their patients who suffer from foot and biomechanical problems. 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 it's products and services.

Founded in 1994, Footmaxx began to market its technology in Canada in 1995 and in the US in 1997. The Company has two manufacturing facilities in Toronto, Canada and Goffstown, New Hampshire, USA to service our North American and International customers.

To our shareholders >>

President's Message

MOMENTUM

By any measure, 2001 has been a great year for Footmaxx; our best yet. The Company realized the benefits of the reorganization and operational changes implemented in 2000/2001 and continued to focus on expanding (diversifying) its customer base of Podiatrists, Chiropractors, Orthopaedic Surgeons, as well as Orthopaedic and Prosthetic Laboratories. Our gross profit margins have increased substantially, and we continued our string of strong financial performance, with eight consecutive quarters of increased and positive EBITDA. We finished the year with a record EBITDA.

We have created a solid foundation from which to continue building our business and reputation in the market place. In 2001 we completed testing and successfully implemented a new proprietary software package. This software is the platform for the new client software to be introduced in 2002 and is key to our ability to efficiently handle and leverage future growth. Five new product lines were piloted and introduced in the year. Investment was made in the development of our next generation client diagnostic and ordering software to be introduced in 2002. The new client software will increase our value to the clinicians we serve and in the treating of their patients.

Lenny Simak
President/C.E.O.

STRENGTH AND INNOVATION

We successfully launched five new products in 2001; two non-prescription orthotic lines, a graphite heel cup design for our prescription

custom orthotics line, a line of prescription custom orthotics fitted sandal foot wear and electronic transmission of our propriety 8 point diagnostic report, we called E-Gait.

The non-prescription line is designed to fill the clinicians' need to provide temporary or lower cost orthotic devices for therapy. This product line will generate additional revenues for the Company and will enhance Footmaxx's profile and reputation with certain segments of our targeted clinician customer base.

Our graphite prescription heel cup line piloted in 2000, and introduced in early 2001, has been a resounding success and has grown to represent over 15% of our US product volume. We believe the market acceptance of this product will enable us to gain an even wider acceptance of our diagnostic system and orthotics product line.

In July of 2000, we introduced a line of exclusive men's and women's corrective prescription orthotic sandals. Even with a "late" seasonal launch the concept and product was well accepted by 20% of our customer base. With enhancements made to the product from market feedback and full product awareness prior to the next full season, we expect this product to be a significant contributor to our revenue in 2002.

E-gait reports piloted in 2000, were made available to all customers in the last quarter of 2001. The number of customers and volume of reports ordered by customers immediately grew by 40%. We believe this to be a strong indication of the value and growing acceptance given to this proprietary product by clinicians, patients and reimbursement groups.

Footmaxx continued to expand its association and supply of orthotics to professional and collegiate sports teams. This area provides an invaluable

To our shareholders continues + page 4

source of information for product development. Our orthotics are supplied to the majority of Major League Baseball, NFL, NBA, and NHL teams.

At the end of 2001 we entered into negotiations to enhance our sales and distribution capabilities in Australia and Europe. 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.

OUTLOOK AND PERFORMANCE

The Company is well positioned as we enter 2002. 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.

We believe that the production and sales infrastructure we now have in place will allow us to increase our revenues by more than 50% with only a small increase in operating expenditures. This means that every dollar in sales brought in will generate approximately 20 cents in EBITDA in 2002 and beyond.

Approximately 98% of our sales were in North America. The US represents 58% and Canada 40%. With the sales and marketing reorganization of 2000/2001 behind us and the demonstrated operational improvements and new products introduced in 2001, we know that we can increase revenues in the coming year, particularly in the US and International markets.

Lenny Simak
President and Chief Executive Officer

Management Discussion & Analysis

Net Income

Net Loss for the year 2001 improved by $600,226 as compared to the year 2000. Net Loss for the year was $1,602,484 ($0.04 per share) versus a loss of $2,202,750 ($0.06 per share) a year earlier. A dramatic increase in EBITA, which improved $729,979 year over year, was offset by an increase in debenture interest. The significant improvement in EBITA is the result of changes made to the operations to improve margins and to reduce and stabilize expense levels. Earnings before interest, taxes, depreciation, and amortization were $1,045,588 compared to $315,339 for 2000.

Sales

Sales revenue for the year 2001 was $13,850,702, slightly below that of the year 2000 $14,123,721. During the last six months of the year however, revenues improved steadily and in the final quarter of 2001 we were 10% above the fourth quarter revenues of 2000. The improved sales trend has continued into 2002.

Gross Profit

Gross profit increased 3.2% in 2001 to $7,642,798 or 55.2% of sales from $7,347,462 or 52.0% of sales in 2000. Continued focus on profitability has resulted in the improvement in profit margins.

Operating Expenses

The Company continued to realize the benefits of improved efficiency and lower operating expenses as a result of investments made in process improvements and computerization in 2000 and 2001. Operating expenses which included Selling and Administrative Expenses along with Research and Development expenses were $6,898,610 in 2001 (49.8% of sales) as compared to $7,632,908 in 2000 (54.0% of sales).

Cash Flows

Improved cost control in the year 2001 allowed the Company to reduce bank indebtedness by $860,000. In addition the Company was able to improve receivable aging to 45 days and meet all financial commitments in a timely fashion.

Management Discussion & Analysis continues + page 6

Management Discussion & Analysis *(continued)*

Capital Resources & Liquidity

During the latter part of 2001 the Company began a project to restructure it's debenture financing. The goal was to replace some of the Company's debenture holdings with mezzanine financing.

Subsequent to the end of the year the Company arranged mezzanine financing with a term of five years to replace a portion of the outstanding debentures. The remaining debenture holders extended their term to five years. This financing has eliminated the prevailing short term liquidity concerns.

Changes in Accounting Policies

Please refer to the attached audited financial statements under note 1(k).

As of the date of adoption of Section 3062, the Company expects to have unamortized goodwill in the amount of $204,089 and no unamortized identifiable intangible assets. Goodwill will be subject to the transition provisions of Section 3062. Amortization expense related to goodwill was $14,578 for each of the years ended December 31, 2001 and 2000. Management believes that this new standard will not have any material impact on the results from operations.

Footmaxx Holdings Inc.
Quarterly Earnings Financial Comparison 2001 versus 2000

(000's) $CDN	2001				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$3,368.1	$3,451.4	$3,483.4	$3,547.8	$3,703.6	$3,708.5	$3,497.8	$3,213.8
Net Loss	384.5	457.8	292.1	468.1	701.5	429.7	611.4	460.2
Loss Per Share	0.01	0.01	0.01	0.01	0.02	0.01	0.02	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.

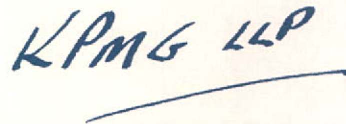
** Operating expenses exclude interest on convertible debentures, amortization, and write-offs.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Footmaxx Holdings Inc. as at December 31, 2001 and 2000 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, 2001 and 2000 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

June 17, 2002

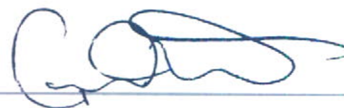
Consolidated Balance Sheets

December 31, 2001 and 2000	2001	2000
Assets		
Current assets:		
Cash	$ 244,412	$ 182,937
Accounts receivable, net	1,547,029	1,728,456
Inventory (note 2)	396,742	875,689
Other assets	42,620	37,833
	2,230,803	2,824,915
Capital assets (note 3)	1,762,824	2,187,774
	$ 3,993,627	**$ 5,012,689**
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank indebtedness (note 4)	$ 347,000	$ 1,207,000
Accounts payable and accrued liabilities	1,006,301	1,183,635
Accrued interest convertible debentures	–	2,096,679
	1,353,301	4,487,314
Convertible debentures (note 5)	15,121,983	11,404,548
Shareholders' deficiency:		
Capital stock (note 6)	22,244,706	22,244,706
Deficit	(34,726,363)	(33,123,879)
	(12,481,657)	(10,879,173)
	$ 3,993,627	**$ 5,012,689**

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director



Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2001 and 2000	2001	2000
Sales	$ 13,850,702	$ 14,123,721
Cost of goods sold	5,787,904	6,175,474
Gross profit before undernoted	8,062,798	7,948,247
Inventory allowance on consigned revenue-generating systems	420,000	600,785
Gross profit	7,642,798	7,347,462
Expenses:		
Selling and administration	5,923,887	6,748,654
Research and development	974,723	884,254
Interest on convertible debentures	1,620,756	1,252,188
Other interest	78,288	137,860
Amortization	529,028	527,256
Write-off of computer software	118,600	–
	9,245,282	9,550,212
Loss for the year	(1,602,484)	(2,202,750)
Deficit, beginning of year	(33,123,879)	(30,921,129)
Deficit, end of year	**$ (34,726,363)**	**$ (33,123,879)**
Basic and diluted loss per common share (note 8)	**$ (0.04)**	**$ (0.06)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000	2001	2000
Cash flows from (used in) operating activities:		
Loss for the year	$ (1,602,484)	$ (2,202,750)
Items not involving cash:		
Amortization of capital assets	529,028	527,256
Inventory allowance	420,000	600,785
Write-off of computer software	118,600	–
Interest on convertible debentures (note 14(c))	1,620,756	–
	1,085,900	(1,074,709)
Change in other non-cash working capital:		
Decrease in accounts receivable	181,427	85,449
Decrease in inventory	58,947	562,119
Decrease (increase) in other assets	(4,787)	50,178
Decrease in accounts payable and accrued liabilities	(177,334)	(184,084)
Increase in accrued convertible debentures interest	–	840,092
	1,144,153	279,045
Cash flows from (used in) financing activities:		
Decrease in bank indebtedness	(860,000)	(673,316)
Repayment of bank term loans	–	(620,000)
Proceeds on issue of convertible debentures	–	1,000,000
	(860,000)	(293,316)
Cash flows used in investing activities:		
Purchase of capital assets	(222,678)	(125,856)
Increase (decrease) in cash	61,475	(140,127)
Cash, beginning of year	182,937	323,064
Cash, end of year	**$ 244,412**	**$ 182,937**
Supplemental cash flow information:		
Interest paid	$ 78,288	$ 137,860
Non-cash transaction:		
Capitalization of accrued interest on convertible debentures (note 5)	**3,717,435**	–

See accompanying notes to consolidated financial statements

Years ended December 31, 2001 and 2000

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.

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.

1. Significant account policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared on the basis of 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 all terms and conditions, including financial covenant tests associated with its financings and to improve profitability of the business to permit it to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption is not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities and the reported revenue and expenses.

Subsequent to year end, the Company renegotiated the terms and conditions of the convertible debentures (note 14).

(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 account 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	5 years
Computer software	5 years
Dies and moulds	20 years

Goodwill, included in capital assets, which was acquired with the purchase of a division of a private company is amortized on a straight-line basis over 20 years.

The Company reviews the value of the unamortized balance of goodwill every year by comparing the balance with the present value of the projected cash flows from operations.

(d) 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.

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 rate 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 rate of exchange for the year.

Years ended December 31, 2001 and 2000

1. *Significant account policies (continued):*

(e) 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.

(f) 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.

(g) 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 period that includes the enactment or substantive enactment date.

(h) 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.

1. *Significant account policies (continued):*

(i) Earnings per share:

In fiscal 2001, the Company adopted the new provisions of the CICA Handbook Section 3500, "Earnings per Share" on a retroactive basis. Basic earnings per share are computed using the weighted average number of common shares that are outstanding during the year. This method is consistent with that previously applied. Diluted earnings per share are computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options using the treasury stock method. Stock options, which are not in the money, have not been considered in the calculation of diluted earnings per share since they would be anti-dilutive. The retroactive application of this standard had no impact on the prior year's earnings per share.

(j) Comparative figures:

Certain 2000 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2001.

(k) Recently issued accounting pronouncements:

(i) Stock-based compensation and other stock-based payments:

In December 2001, the CICA issued Handbook Section 3870, which establishes standards for the recognition, measurement and disclosures 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 employee 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. The new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning January 1, 2002 for awards granted on or after that date. The Company is currently assessing the impact of this new accounting pronouncement.

Years ended December 31, 2001 and 2000

1. *Significant account policies (continued):*

(ii) Foreign currency translation and hedging relationship:

CICA Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items effective January 1, 2002 with retroactive restatement of prior periods. The CICA issued Accounting Guideline AcG-13, which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company anticipates that these new standards will have no impact to the consolidated financial statements.

(iii) Business combinations and goodwill:

In September 2001, the CICA issued Handbook Sections 1581, Business Combinations and 3062, Goodwill and Other Intangible Assets. The new standards require the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also require that specified intangible assets be recognized and reported apart from goodwill.

In connection with the Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of January 1, 2002. Any transitional impairment will be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings of January 1, 2002.

Years ended December 31, 2001 and 2000

2. Inventory:

		2001		2000
Computer footmats and hardware	$	92,524	$	677,308
Orthotics		304,218		198,381
	$	**396,742**	**$**	**875,689**

3. Capital assets:

						2001		2000
		Cost		Accumulated amortization		Net book value		Net book value
Leasehold improvements	$	479,413	$	215,099	$	264,314	$	312,406
Furniture, fixtures and equipment		1,012,045		439,295		572,750		813,250
Computer hardware		1,142,253		885,482		256,771		225,367
Computer software		1,122,926		949,623		173,303		503,015
Dies and moulds		510,143		218,546		291,597		115,069
		4,266,780		2,708,045		1,558,735		1,969,107
Goodwill		5,248,036		5,043,947		204,089		218,667
	$	**9,514,816**	**$**	**7,751,992**	**$**	**1,762,824**	**$**	**2,187,774**

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.

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 $6,165,747, and Series III debentures with a face value of $1,116,480. These convertible debentures matured on March 31, 2002 and bore interest at 12% per annum, compounded quarterly in arrears.

Years ended December 31, 2001 and 2000

5. *Convertible debentures (continued):*

The Series I debentures are convertible into 47,763,320 common shares of the Company at a price equal to $0.15 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 44,916,518 common shares of the Company at a price equal to $0.15 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 8,133,382 shares at a conversion price of $0.15 per common share. 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.

Subsequent to year end, the Company renegotiated the terms and conditions of these debentures (note 14).

6. Capital stock:

	2001	2000
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
35,766,224 common shares	20,140,782	20,140,782
	$ 22,244,706	**$ 22,244,706**

Years ended December 31, 2001 and 2000

7. Stock option plan:

	2001		2000	
	Number of share	Weighted average exercise price	Number of share	Weighted average exercise price
Outstanding, beginning of year	4,214,500	$ 0.73	4,195,000	$ 0.91
Granted	220,000	0.15	1,117,500	0.37
Retired	398,000	0.94	1,098,000	1.03
Outstanding, end of year	**4,036,500**	**0.68**	**4,214,500**	**0.73**
Stock options exercisable, end of year	1,556,625	$ 0.87	1,831,750	$ 0.96
Weighted average remaining contractual life	2.01 years		3.18 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. No options have been exercised since granted.

8. Loss per common share:

	2001	2000
Loss from operations	$ 1,602,484	$ 2,202,750
Weighted average common shares	35,766,224	35,766,224
Basic and diluted loss per common share	$ 0.04	$ 0.06

Years ended December 31, 2001 and 2000

8. *Loss per common share (continued):*

The exercise of stock options which would result in the issuance of 4,036,500 common shares and the conversion of debentures which would result in the issuance of 100,813,220 common shares have not been considered in the calculation of diluted shares since they would be anti-dilutive.

9. Related party transactions:

The following is a summary of the Company's approximate transactions and balances with significant shareholders and officers in the normal course of operations and accounted for under normal conditions of trade:

		2001		**2000**
Sales	$	–	$	83,107
Management fees	$	–	$	16,314
Accounts receivable balance, end of year	$	–	$	54,305

$9,732,000 of the convertible debentures described in note 5 are held primarily by four shareholders of the Company. In addition, these same shareholders would have $2,451,090 in accrued interest owing to them as at December 31, 2001.

10. Commitments:

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

2002	$	256,232
2003		287,485
2004		291,070
2005		23,405
2006 and thereafter		–

Years ended December 31, 2001 and 2000

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 $20,579,000 (2000 – $27,398,000) to be applied against future years' taxable income. The losses expire as follows:

2002	$	263,000
2003		1,629,000
2004		3,951,000
2005		1,505,000
2006 and thereafter		13,231,000
	$	**20,579,000**

		2001		2000
Future tax assets:				
Non-capital loss carryforwards	$	7,110,000	$	9,724,000
Inventory		1,027,000		324,000
Accounts receivable		–		38,000
Financing costs		29,000		76,000
General reserves		49,000		14,000
Interest		1,892,000		–
		10,107,000		10,176,000
Less valuation allowance		9,804,000		10,104,000
		303,000		72,000
Future tax liabilities:				
Goodwill		50,000		32,000
Capital assets		253,000		40,000
		303,000		72,000
	$	–	$	–

11. *Income taxes (continued):*

The average statutory Canadian income tax for the year ended December 31, 2001 was 41.74% (2000 – 43.95%). A comparison of nominal provisions at these rates, with the amounts provided in the consolidated statements of operations, is as follows:

		2001		2000
Loss before income taxes	$	(1,602,000)	$	(2,203,000)
Nominal tax recovery at average statutory Canadian income tax rates	$	(669,000)	$	(968,000)
Increase in income taxes resulting from effect of losses, the tax effect of which has not been recognized for accounting purposes		669,000		968,000
Income taxes on earnings before income taxes	$	–	$	–

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, accounts payable and accrued liabilities, and convertible debentures approximate their fair values due to the relatively short periods to maturity of the instruments.

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.

	2001	2000
Revenue:		
Canada	$ 5,567,824	$ 5,950,333
United States	8,062,410	7,799,116
Other foreign countries	220,468	374,272
	$ 13,850,702	**$ 14,123,721**

	2001	2000
Capital assets and goodwill:		
Canada	$ 1,355,809	$ 1,796,774
United States	407,015	391,000
	$ 1,762,824	**$ 2,187,774**

14. Subsequent events:

During May 2002, the Company completed the following financial transactions:

(a) The Company issued new subordinated debentures with a face value of $4,000,000. These debentures mature on May 31, 2007 and bear interest at 14% per annum payable monthly. In addition to the monthly interest payments there are annual bonus interest payments totalling $1,025,000 which bring the effective cost of borrowing to 23%. The principle is repayable in equal monthly instalments of $74,000 over the last 54 months of the 60 month term of the loan. These subordinated debentures shall rank in priority to the existing Series I, II and III debentures but behind the Company's operating line of credit. The proceeds of this subordinated debenture were used to repay $5,552,000 of the Series II debentures.

(b) The Company issued Series IV debentures with a face value of $1,000,000. These Series IV debentures mature on June 30, 2007 and bear interest at a rate of 14% per annum. These Series IV debentures rank ahead of the existing Series I, II and III debentures, but behind the new subordinated debentures and the Company's operating line of credit. The proceeds of this Series IV debenture was used to repay the Series II debentures, along with legal and financing fees related to this refinancing.

(c) The Company has entered into a new Trust Indenture Agreement with the existing Series I, II and III debenture holders. This new Trust Indenture extends the maturity of the current Series I, II and III from March 31, 2002 to June 30, 2007. In addition, Series I debentures bear no interest, Series II debentures bear interest at a rate of 24% per annum and Series III debentures bear interest at a rate of 12% per annum. The conversion rate applicable to each of Series I, II and III has been adjusted from $0.15 per share to $0.10 per share. Series II and III debentures rank pari passu with respect to the repayment of principal and interest and shall rank in priority to Series I debenture. In addition, under the new Trust Indenture, the Company has no obligation to repay either the accrued interest as at December 31, 2001 or any subsequent accrued interest until June 30, 2007.

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 management.**

Footmaxx Board of Directors

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STATE OF INCORPORATION
Footmaxx Inc. Delaware
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To request complete Footmaxx financial reports and other financial-related news releases electronically, please email the webmaster at webmaster@footmaxx.com