ANNUAL REPORT

2003

Holdings Inc

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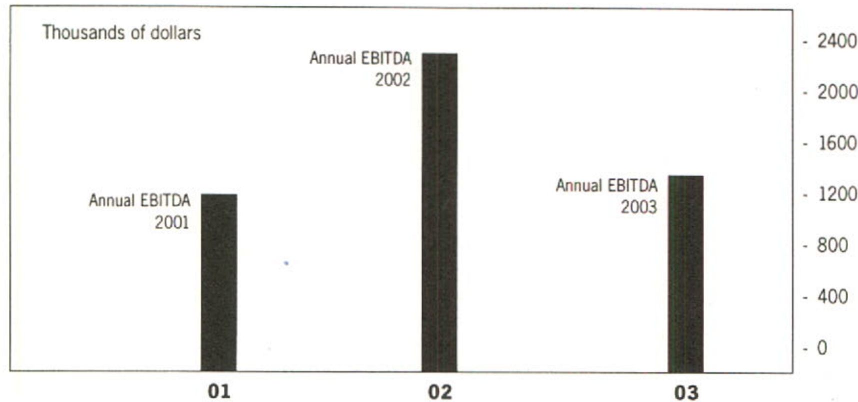
McGILL UNIVERSITY

www.footmaxx.com

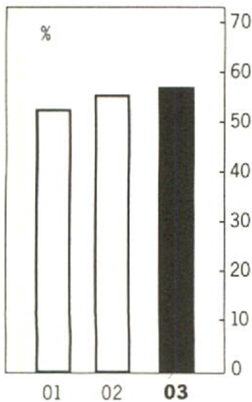
Financial Highlights

For the years ended December 31	Results of Operation		
	2003	**2002**	**2001**
Sales	$ 14,038,427	$ 15,397,253	$ 13,850,702
Gross Profit	7,863,704	8,658,515	7,642,798
Gross Profit %	56.01%	56.20%	55.18%
EBITDA*	1,218,794	2,158,146	1,045,588
Earnings (Loss) Before Income Taxes	(964,744)	35,844	(1,602,484)
Income (Loss) For Year	(1,006,927)	(56,322)	(1,602,484)
Income (Loss) Per Share	$ (0.06)	$ 0.00	$ (0.04)

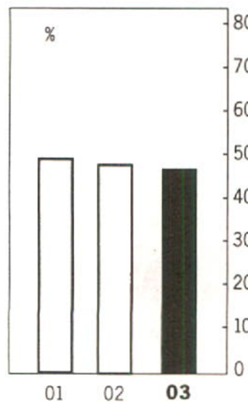
EBITDA 2001, 2002 & 2003



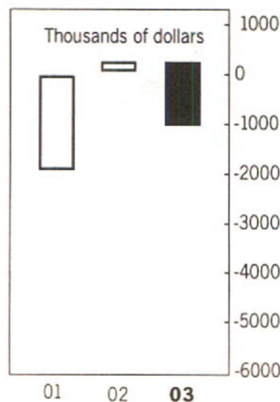
Gross Profit Ratio



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 Holdings Inc. is a Canadian based company that develops, manufactures and markets proprietary medical computerized technology producing a custom prescription medical device for healthcare specialists such as orthopedic surgeons, podiatrists, chiropractors, physical therapists, orthotists and athletic trainers.

After devoting years to research and development, the company entered the Canadian market in 1995 and the US market in 1996. Since that time the company's unique computerized gait and pressure analysis system, has successfully helped to diagnose the foot function of over 1,000,000 patients and prescribe corrective Footmaxx orthotics for over 700,000 patients.

Footmaxx orthotics are used in treating foot anomalies and their related problems that research has proven can affect other parts of the body from the ankle to the knee, hip and lower back. Orthotics have proven to be an effective means to correcting poor biomechanics and gait alignment, as well as being a preventative measure for medical conditions such as arthritis and diabetes.

Utilizing the proprietary Footmaxx equipment and software, the procedure takes less than 5 minutes and is non-invasive. Via modem, patient data transmits to Footmaxx. Metascan©, our proprietary software, then determines how best to custom construct orthotics to meet the patient's needs. Manufacturing of these corrective devices takes place at one of our two manufacturing facilities and must pass strict quality control standards before shipment to a clinic. Turnaround from time of order is often within two to three days.

The Footmaxx technology efficiently screens patients in order to prevent, detect or confirm foot function, foot related problems or poor biomechanics. For this reason, a majority of the Major League Baseball, the National Football League, the National Basketball League and National Hockey League, as well as other professional, elite and collegiate athletes use the Footmaxx system for diagnoses, treatment and performance enhancement.

With a growing and ever more active aging population, progressive clinicians are looking for opportunities to streamline and grow their practices to service a more demanding and discerning patient population. Footmaxx works on building stronger medical practices and improved patient compliance and satisfaction through orthotic therapy.

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

TO OUR SHARE HOLDERS

Lenny Simak, President/C.E.O.

It's been nine years since Footmaxx first introduced its computerized technological innovations to the traditional practice of prescribing and ordering orthotics in Canada. Since that time, the Footmaxx system and line of orthotics has evolved, with use throughout the United States and several major international markets.

Over the years, the company has expanded its product lines to include footwear, non-prescription accommodative products and released five-updated versions of its clinician and processing software to meet the needs of our healthcare clients. We continue to expand and diversify our customer base amongst our targeted healthcare professionals of podiatrists, orthopedic surgeons, chiropractors, orthotists and orthotists/prosthetists, physical therapists and athletic trainers.

The year 2003 saw our sales revenue significantly impacted by an unprecedented decline in the value of the US dollar and a sluggish demand in the second half of the year, due to a weak North American economy.

The decline in the US dollar cost the company over 6% in top line revenue, $930,000 and eroded our margins by $615,000. After removing the effects of currency fluctuations, sales dropped a further 2.8%, primarily due to the weak economy, which affected our fourth quarter volumes the greatest.

In spite of these challenges, Footmaxx remained profitable with an operating EBITDA of $1,218,794. Ongoing projects and cost controls to improve our operations in 2003 enabled Footmaxx to maintain gross profit margins and improve our ratio of expenses to revenues. During the year, the company continued to reduce its outstanding debt load and maintain the confidence of the investors.

During 2003, the company expanded its traditional casting lab facility to meet the demands of our growing customer base. As well, we introduced our latest version of diagnostic equipment, compatible with current Windows and USB requirements. Ongoing updates to our internal processing software, Arwen in 2003 and planned for 2004 will allow us to gain further operating efficiencies.

In 2003, the Toronto Stock Exchange upgraded Footmaxx to Tier 2 status on the TSX-Venture Exchange with our trading symbol changing to FMX.

LOOKING FORWARD TO 2004, Footmaxx will introduce several new non-prescription orthotic lines and an expanded line of footwear. The company will stay the course and continue to focus on our targeted customer market, which should benefit from an anticipated improving North American economy.

The company will also be relocating its Canadian facilities in late 2004 and early 2005. We anticipate this will significantly improve operating efficiency and expenses in 2005 and beyond. With a strong operating platform, a commitment to technology development, and continued improvements in operations and sales, the company is poised to take advantage of the return of market growth.

Lenny Simak
President and Chief Executive Officer

for the Twelve Months Ended December 31, 2003
Management Discussion and Analysis

OVERALL PERFORMANCE

During 2003, the company faced the combined challenges, of a strengthening Canadian dollar and a soft market demand for orthotics. The decline in the value of the US dollar, the currency in which Footmaxx transacts a majority of its business, cost the Company $930,000 or 6% of revenues. The weak demand for orthotics in the North American market was responsible for a further 2.8% decrease in revenues. As a result, final revenues were $14,038,427, 8.8% below prior year.

The Company initiated efforts to reduce operating costs in order to offset the negative impact of the declining US dollar. These efforts more than offset the unfavourable foreign exchange impact, but were not enough to offset the impact of a decrease in order volume, most of which occurred in the fourth quarter of 2003. Net Income decreased by $950,605, to a net loss of $1,006,927, versus a net loss of $56,322 in 2002. Approximately $760,000 of the 2002 earnings before income taxes was due to the discount on the retirement of certain debentures.

RESULTS OF OPERATIONS
REVENUES

Revenues for 2003 decreased during the year by $1,358,826 or 8.8%, to $14,038,427 from $15,397,253. The strengthening Canadian dollar versus the US dollar, accounted for $930,000 of this decrease as approximately 60% of the Company's revenues are in US dollars. In orthotic sales volumes decreased by 6%, further decreasing revenues for the year by approximately $650,000. The decrease in volume occurred approximately, 75% Internationally and 25% in Canada. The weak US economy was the primary reason for the decrease. However, the Company was able to offset some of the revenue loss from volume, through pricing strategy and some price increases. This program resulted in a positive impact on revenues of 2.5%, or approximately $220,000.

Sales of systems and resale products, which account for approximately 15% of the company's sales, remained strong in 2003, achieving the same level as those in 2002. A new version of the Company's proprietary diagnostic and ordering software released in late 2002 continues to generate strong market interest and system sales. As well, new product additions to non-prescription orthotic and footwear lines continue to add to overall revenues. Resale products including sales of the Company's proprietary computer system supported and generated growth in custom orthotics sales.

REVENUES BY GEOGRAPHIC AREA

	Revenues by Geographic Area			
$CDN (000's)	2003	% Total Sales	2002	% Total Sales
Canada	$5,802.8	41.3%	$5,938.5	38.6%
International (mainly USA)	$8,235.7	58.7%	$9,458.7	61.4%
Total Sales	$14,038.5	100.0%	$15,397.20	100.0%

The revenues in Canada for 2003 were 2.3% below revenues in Canada for 2002. However, there was a 13.0% decrease in revenues from the International business, two thirds of which was due to the unfavourable foreign exchange situation. Consequently, the percentage of total revenues for Canada increased slightly at the expense of the International business.

GROSS PROFIT

Gross Profit for 2003 decreased $794,811 or 9.2% from $8,658,515 in 2002, to $7,863,704 in 2003. The unfavourable net impact of the strengthening Canadian dollar on gross profit was approximately $615,000. The exchange reduced costs at our US manufacturing plant and for certain raw materials and computer hardware sourced from the US. The impact of the reduced volume versus prior year decreased gross margin by $380,000.

The company also upgraded certain orthotic material to improve quality and proprietary computer equipment components that increased costs by approximately $220,000. Material cost increases, were offset by price increases for the year. Wage and benefit cost increases were offset by improvements in productivity due to improved balancing of workloads between the US and Canadian manufacturing plants. Freight and handling costs improved by $180,000, due to routing changes and freight software implemented in late 2002 and during 2003.

$CDN (000's)	Gross Profit by Geographic Area			
	2003	% Gross Profit	2002	% Gross Profit
Canada	$3,279.6	41.7%	$3,274.2	37.8%
International (mainly USA)	$4,584.1	58.3%	$5,384.3	62.2%
Total Sales	$7,863.7	100.0%	$8,658.5	100.0%

Canadian gross profits remained fairly level with 2002. Gross profit in the International business was impacted by the foreign exchange rates and a volume reduction as discussed above.

OPERATING EXPENSES

SALES & ADMINISTRATIVE expenses decreased $1,066,456 or 15.8% during 2003. The favourable effect of the stronger Canadian dollar reduced expenses by approximately $255,000, $225,000 in US selling and $30,000 in finance and administrative. Unfavourable balance sheet foreign exchange reduced this favourable impact by $225,000. One-time costs of $290,635, associated with refinancing of certain debentures and $71,500 relating to stock compensation expenses arose in 2002. Adjusting for these items, actual cost reduction in expenses were approximately $675,000.

US Selling expenses decreased by $454,407 of which $225,000 is due to the impact of exchange. The balance of US sales expense savings is the result of more cost effective travel and promotional expenses, as well as decreased sales compensation due to lower sales revenues. Canadian selling expenses decreased by $145,816 due to similar savings in travel and sales compensation. Marketing expense savings were due to savings in reproduction and advertising costs. Finance and Administrative expenses decreased due to a reduction in legal and audit related expenses as well as a reduction in consulting expenses.

Selling and Administration	2003	2002	Fav(Unfav)	%
USA Sales	$2,021,172	$2,475,579	$454,407	
Canada Sales	$1,141,412	$1,287,228	$145,816	
Marketing	$310,502	$417,418	$106,916	
Finance and administration	$1,950,444	$2,171,391	$220,947	
Financing Expenses	$0	$290,635	$290,635	
Stock compensation expense	$0	$71,533	$71,533	
Balance Sheet Foreign Exchange	$253,737	$29,942	($223,795)	
	$5,677,267	$6,743,726	$1,066,459	15.8%

RESEARCH AND DEVELOPMENT expenses increased by $97,440 from $870,203 in 2002 to $967,643 in 2003. This is the result of addition to staff to support the development of proprietary software and the cost of inflation in salary and benefits.

NET LOSS

Net Loss for 2003 is $1,006,927, which is $950,605 more than the $56,322 recorded for 2002. The $950,000 increase in net loss is the result of four major items: the decrease in gross profit of $800,000, the absence of the net impact of the discount on debentures of $760,000, the increase in long-term debt interest of $200,000 and the cost reductions in operating expenses of $810,000.

Summary of quarterly results

(000's) $CDN	2003				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$3,788	$3,745	$3,461	$3,044	$3,802	$4,028	$3,811	$3,757
Net Income (Loss)	(181)	(285)	(166)	(374)	(303)	923	(169)	(507)
Earnings (Loss) per share	($0.01)	($0.01)	$0.00	($0.01)	($0.01)	$0.02	$0.00	($0.01)

When comparing Net Income (Loss) for the last eight quarters there is decrease in net income due to the strengthening of the Canadian dollar. Q4 2003 was also impacted by a fall in volumes of orthotics sold. Q2 2002 included the favourable net impact of the $760,000 associated with the retirement of the debentures.

EBITDA

Earnings before interest, taxes, depreciation and amortization for 2003 decreased by $877,474 from $2,096,268 in 2002 to $1,218,794. Included in the 2002 EBITDA was the discount on a debenture that had a net positive impact of approximately $760,000 net of expensed financing costs. The remaining decrease of approximately $120,000 was due to a 9% reduction in revenues, which the company mitigated through cost reduction and productivity improvements. EBITDA has been used by the Company historically to measure the cash flow profit generated by operations. In addition, EBITDA is used in calculating some of the Company's debt covenants.

	2003	2002
Net Loss	($1,006,927)	($56,322)
Add Back:		
Accrued Interest on convertible debentures	$766,073	$918,848
Interest on long term debt	$847,883	$509,622
Other interest	$26,794	$20,836
Amortization capital assets	$449,801	$556,876
Amortization financing costs	$92,987	$54,242
Income taxes	$42,183	$92,166
EBITDA	$1,218,794	$2,096,268

LIQUIDITY

CASH FLOW

Reduced sales volumes in the fourth quarter created some cash flow challenges in the quarter. However, in 2003 the Company managed to pay $888,888 in principal and $542,000 in interest on its long tem debt. In addition, in 2003 the Company made over $200,000 worth of investments in capital assets, to benefit future revenues and expenses. Cash flow for the year was positive $5,000, and the company utilized an additional $360,000 of its bank facility. The company also benefited from improvements in non-cash working capital management. Non-cash working capital improved by $110,000.

CAPITAL EXPENDITURES

During 2003, the Company made investments in capital assets for $212,186, as compared with the $312,379 invested during 2002. The largest investment was in an increased equipment pool to meet the demand for trial, loaner and rental from systems customers. In addition, investments were made in software and hardware upgrades, to deal with the increased need to protect the company's network from computer viruses.

DEBT COVENANTS

During 2003, the company was in violation of certain of its financial covenants. Penfund and The Royal Bank have provided the company with letters of waiver and tolerance respectively.

2003 FOURTH QUARTER RESULTS

Fourth quarter revenues for 2003 decreased $712,794, from $3,756,934 in 2002 to $3,044,140 in 2003. An unfavourable exchange rate year over year accounted for $335,000 of the decrease. The balance of the decrease, approximately $380,000, was split evenly between a reduction in revenue from custom orthotics and systems sales. A weak demand from the North American market was the cause of the decrease. Subsequently, the company incurred a loss for the quarter of $373,771, primarily caused by the shortfall in revenues. Cash flows for the quarter were $82,785 positive, and the Company increased its utilization of its credit facility by an additional $128,615. The Company implemented a cost reduction program and sales initiatives in the quarter, to deal with the impact of the exchange changes and a soft demand for product.

2004 FINANCIAL OUTLOOK

Management believes the prospect for the continued acceptance and growth of its technology and products is good, based on established acceptance of our technology, and the prospect of an improving economy in North America. During the fourth quarter of 2003 the company realized, that the prospect of an ongoing unfavourable foreign exchange and a continued weak North American demand, would present on going challenge in 2004. Subsequently, the Company implemented a plan in late 2003 and early 2004 to improve costs and reduce overheads. In addition, sales initiatives and product introduction are planned for 2004, to make the company's products and services even more attractive to a broader segment of the potential market.

FORWARD-LOOKING STATEMENTS

The foregoing may contain forward-looking statements. These statements are based on current expectations that are subject to risks and uncertainties, and the Company can give no assurance that these expectations are correct. Various factors could cause actual results to differ materially from those projected in such statements, including financial considerations and those predicting the timing and market acceptance of future products. The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this Cautionary Statement.

Auditors' Report to the Shareholders

KPMG LLP

Chartered Accountants
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Toronto ON M5L 1B2

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We have audited the consolidated balance sheets of Footmaxx Holdings Inc. as at December 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

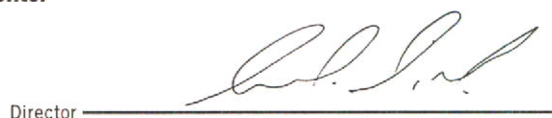
March 19, 2004

Consolidated Balance Sheets

December 31, 2003 and 2002	2003	2002
Assets		
Current assets:		
Cash	$ 99,335	$ 94,272
Accounts receivable, net	1,289,960	1,661,256
Inventory (note 2)	488,205	659,973
Other assets	92,033	173,135
	1,969,533	2,588,636
Capital assets (note 3)	1,076,623	1,314,238
Deferred financing costs	317,704	410,691
	$ 3,363,860	**$ 4,313,565**
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank indebtedness (note 4)	$ 610,615	$ 252,000
Accounts payable and accrued liabilities	653,128	1,166,433
Current portion of long-term debt (note 6)	3,522,357	888,888
	4,786,100	2,307,321
Long-term debt (note 6)	–	3,187,630
Convertible debentures (note 5)	12,255,222	11,489,149
Shareholders' deficiency:		
Capital stock (note 7)	22,316,239	22,316,239
Deficit	(35,993,701)	(34,986,774)
	(13,677,462)	(12,670,535)
	$ 3,363,860	**$ 4,313,565**

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director

Director

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002	2003	2002
Sales	$ 14,038,427	$ 15,397,253
Cost of goods sold	6,174,723	6,676,860
Gross profit before undernoted	7,863,704	8,720,393
Inventory allowance on consigned revenue-generating systems	–	61,878
Gross profit	7,863,704	8,658,515
Expenses:		
Selling and administration	5,677,267	6,743,726
Research and development	967,643	870,203
Discount on debenture payout	–	(1,051,682)
Accrued interest on convertible debentures	766,073	918,848
Interest on long-term debt	847,883	509,622
Other interest	26,794	20,836
Amortization of capital assets	449,801	556,876
Amortization of deferred financing costs	92,987	54,242
	8,828,448	8,622,671
Earnings (loss) before income taxes	(964,744)	35,844
Income taxes (note 12)	42,183	92,166
Loss for the year	(1,006,927)	(56,322)
Deficit, beginning of year	(34,986,774)	(34,726,363)
Write-off of goodwill (note 1(e))	–	(204,089)
Deficit, end of year	**$ (35,993,701)**	**$ (34,986,774)**
Basic and diluted loss per common share (note 9)	$ (0.03)	$ –

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2003 and 2002	2003	2002
Cash flows from (used in) operating activities:		
Loss for the year	$ (1,006,927)	$ (56,322)
Items not involving cash:		
Amortization of capital assets	449,801	556,876
Amortization of deferred financing costs	92,987	54,242
Inventory allowance	–	61,878
Interest on convertible debentures	766,073	918,848
Imputed interest on long-term loan (note 6)	334,727	150,592
Discount on payout of Series II and III debentures (note 5)	–	(1,051,682)
Stock compensation expense	–	71,533
	636,661	705,965
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	371,296	(114,227)
Decrease (increase) in inventory	171,768	(325,109)
Decrease (increase) in other assets	81,102	(130,515)
Increase (decrease) in accounts payable and accrued liabilities	(513,305)	160,132
	747,522	296,246
Cash flows from (used in) financing activities:		
Increase (decrease) in bank indebtedness	358,615	(95,000)
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	(888,888)	(74,074)
Deferred financing costs	–	(464,933)
	(530,273)	(134,007)
Cash flows used in investing activities:		
Purchase of capital assets	(212,186)	(312,379)
Increase (decrease) in cash	5,063	(150,140)
Cash, beginning of year	94,272	244,412
Cash, end of year	**$ 99,335**	**$ 94,272**
Supplemental cash flow information:		
Interest paid on short-term debt	$ 26,784	$ 20,836
Interest paid on long-term debt	542,323	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 accounting 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.

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 its financial covenant tests for the Royal Bank and Penfund Mezzanine Fund, the ability to raise additional financing and its ability to improve profitability of the business to permit it to realize its assets and discharge its liabilities in the normal course of operations. During fiscal 2003, the Company was in violation of certain financial covenants imposed by the Royal Bank (note 4) and Penfund Mezzanine Fund (note 6). 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.

(b) Revenue recognition:

The Company recognizes revenue from sales of orthotics and proprietary computer equipment when shipment occurs and title is transferred to customers. Revenue is recorded at the invoice price for each product net of estimated returns and incentives provided to customers.

(c) 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.

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Terms of amortization applied by the Company to amortize 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

(e) 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, resulting in a charge to opening retained earnings of $204,089.

(f) Translation of foreign currency:

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.

(g) 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.

(h) Stock options:

The Company has a stock-based compensation plan, which is described in note 8.

Effective January 1, 2003, the Company adopted the new recommendations of the CICA with respect to the accounting for stock-based compensation and other stock-based payments, using the fair value-based method. The new recommendations were applied to all stock-based payments granted on or after January 1, 2003. The adoption of this new recommendation did not impact the Company's financial position.

In 2002, the Company applied settlement accounting as permitted under CICA Handbook Section 3870.

(i) Deferred financing costs:

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

(j) 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.

(k) Measurement uncertainty:

The preparation of financial statements 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.

(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. These sections establish standards for recognizing, measuring and disclosing impairment for long-lived assets held-for-use, and for measuring and separately classifying assets available-for-sale.

Previously, long-lived assets were written down to net recoverable value if the undiscounted future cash flows were less than net book value. Under the new standard, assets must be classified as either held-for-use or available-for-sale. Impairment losses for assets held-for-use are measured based on fair value, which is measured by discounted cash flows. Available-for-sale assets are measured based on expected proceeds less direct costs to sell. The requirements are effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The adoption of this accounting pronouncement had no material impact on the Company.

(ii) Restructuring charges:

In March 2003, the CICA's Emerging Issues Committee issued EIC-134, Accounting for Severance and Termination Benefits and EIC-135, Accounting for Costs Associated with Exit and Disposal Activities, which establish standards for recognizing, measuring and disclosing costs relating to an exit or disposal activity.

These EICs allow recognition of a liability for an exit or disposal activity only when the costs are incurred and can be measured at a fair value. Previously, a commitment to an exit or disposal plan was sufficient to record the majority of costs. This Abstract was effective for termination benefits and exit or disposal activities initiated after March 31, 2003.

(iii) Asset retirement obligation:

In March 2003, the CICA issued Section 3110, Accounting for Asset Retirement Obligations. Section 3110 requires companies to record the fair value of an asset retirement obligation as a liability in the period in which they incur a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. Companies are also required to record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of the period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Companies are required to adopt Section 3110 for fiscal years beginning on January 1, 2004. The Company has not yet determined the impact of implementation of these guidelines on its consolidated financial statements.

(iv) Variable interest entities:

In June 2003, the Account Standards Board ("AcSB") issued the new CICA Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities. AcG-15 addresses the consolidation of variable interest entities, which are entities that have insufficient equity or their equity investors lack one or more of the specified essential characteristics of a controlling financial interest. AcG-15 also provides guidance for determining who should consolidate the variable interest entity. AcG-15 is effective for the first interim and annual period beginning on or after November 1, 2004, with earlier application encouraged. The adoption of AcG-15 will not have an impact on the Company's consolidated financial statements.

(v) Generally accepted accounting principles:

In July 2003, the AcSB issued two new CICA Handbook Sections, Section 1100, Generally Accepted Accounting Principles, and Section 1400, General Standards of Financial Statement Presentation, which revise and replace Section 1500. Simultaneously, amendments were made to Section 1000, Financial Statement Concepts. The combined impact on these changes is to describe what constitutes generally accepted accounting principles ("GAAP") in Canada and to provide guidance on sources to consult when a matter is not dealt with explicitly in the primary sources of GAAP. The changes also clarify what constitutes "fair presentation in accordance with GAAP" and eliminate the ability for an entity to depart from a CICA Handbook Recommendation when following that Recommendation would result in misleading financial statements. Section 1100, Section 1400 and the amendments to Section 1000 must be applied for fiscal years beginning on or after October 1, 2003, with early adoption encouraged. The Company believes that the implementation of those pronouncements will not have a material impact on its consolidated financial statements.

2. Inventory:

		2003		2002
Computer footmats and hardware	$	202,548	$	161,486
Orthotic raw materials and components		190,773		328,375
Resale products, non-prescription insoles and sandal chassis		94,884		170,112
	$	**488,205**	**$**	**659,973**

3. Capital assets:

						2003
		Cost		Accumulated amortization		Net book value
Leasehold improvements	$	480,451	$	312,517	$	167,934
Furniture, fixtures and equipment		1,012,380		641,796		370,584
Computer hardware		1,575,140		1,343,466		231,674
Computer software		1,219,320		1,154,628		64,692
Dies and moulds		510,432		268,693		241,739
	$	**4,797,723**	**$**	**3,721,100**	**$**	**1,076,623**

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

4. Bank indebtedness:

The bank indebtedness consists of an operating line of credit at the Royal Bank, which bears interest at 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 was in violation of the EBITDA covenant for the last three quarters of the year. The Company has obtained a letter of tolerance from the bank for each quarter in which a violation occurred.

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 with a face value of $1,000,000. These convertible debentures mature on June 30, 2007. Series I became non-interest bearing as of March 31, 2002. Series II bears interest at 24%, Series III at 12% and Series IV at 14%. All interest is compounded quarterly in arrears. As at December 31, 2003, interest of $2,349,063 has accrued on these convertible debentures and is included in the value of convertible debentures. The interest accrued is split between the debentures as follows:

Series I debentures	$ 822,903
Series II debentures	853,770
Series III debentures	428,990
Series IV debentures	243,400
	$ 2,349,063

The principal and accrued interest are convertible into common shares. The Series I debentures are convertible into 73,794,329 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 20,869,191 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 15,454,689 common shares at a conversion price of $0.10 per common share. The Series IV debentures are convertible into 12,434,002 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. The Series IV debentures rank senior to all other debentures but junior to the Penfund Mezzanine Fund 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 of its property, assets and rights.

5. Convertible debentures (continued):

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 major shareholders of the Company. In addition, these same shareholders would have $2,349,063 in accrued interest owing to them as at December 31, 2003.

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 discount of $1,051,682 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.

6. Long-term debt:

On May 31, 2002, the Company secured a loan for $4,000,000 from Penfund Mezzanine Fund 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 $334,727 (2002 - $150,592).

The total outstanding loan plus accrued interest using the effective yield method of interest is $3,522,357, which is comprised of $3,037,038 principal and $485,319 in accrued interest. The Company will make $888,000 in principal payments and $100,000 of bonus interest during 2004, as well as monthly interest payments based on the annual interest rate of 14%.

The Penfund Mezzanine Fund loan has two financial covenants as part of the agreement. The first is the ratio of concentration debt to EBITDA. Concentration debt is defined as the total of the outstanding Penfund Mezzanine Fund loan plus the outstanding Royal Bank line of credit at the end of each quarter. The covenant requires that the Company maintain a ratio of at least 3.0 to 1.0.

The second covenant refers to the ratio of earnings before interest and taxes ("EBIT") to concentration interest with concentration interest defined as the interest on the Penfund Mezzanine Fund loan and the Royal Bank line of credit. The covenant requires that the Company achieve an EBIT to concentration interest ratio of at least 2.0 to 1.0.

The Company was in violation of these covenants for certain quarters of 2003 and at year end. At year end, Penfund Mezzanine Fund has waived its rights to demand repayment for these violations but not for any other violations that may be incurred in 2004, and as such, the debt has been classified as a current liability.

Years ended December 31, 2003 and 2002

6. Long-term debt (continued):

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

2004	$ 888,888
2005	888,888
2006	888,888
2007	370,374
	$ 3,037,038

7. Capital stock:

	2003	2002
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	20,212,315	20,212,315
	$ 22,316,239	**$ 22,316,239**

8. Stock option plan:

	2003			2002		
	Number of share		Weighted average exercise price	Number of share		Weighted average exercise price
Outstanding, beginning of year	2,829,121	$	0.25	4,036,500	$	0.68
Granted	–		–	1,730,932		0.10
Impact of repricing employee options	–		–	–		(0.24)
Retired	558,000		0.44	1,150,000		1.14
Exercised	–		–	1,788,311		0.10
Outstanding, end of year	2,271,121		0.20	2,829,121		0.25
Stock options exercisable, end of year	2,034,559	$	–	1,465,638	$	–
Weighted average remaining contractual life	1.73 years			2.36 years		

Stock options exercisable at the end of the year are exercisable at prices of $0.10 to $0.75.

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.

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 was accounted for as a direct award of stock as a charge to selling and administration expense in the consolidated statements of operations and deficit. The loan has no fixed term to repayment, is non-interest bearing and is secured by the value of the shares. For accounting purposes, the net amount of the loan of $107,298 has been deducted from shareholders' equity.

9. Loss per common share:

		2003		2002
Loss for the year	$	(1,006,927)	$	(56,322)
Weighted average common shares		37,554,534		37,554,534
Basic and diluted loss per common share	$	(0.03)	$	–

The exercise of stock options which would result in the issuance of 2,271,121 (2002 - 2,829,121) common shares and the conversion of debentures which would result in the issuance of 122,552,211 (2002 - 114,891,494) common shares have not been considered in the calculation of diluted shares since they would be anti-dilutive.

10. Related party transactions:

The Company had no other related party transactions for the year ended December 31, 2003, except those related to the debenture holders outlined above.

11. Commitments:

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

2004	$	392,718
2005		128,403
2006		101,601
2007		35,633

12. Income taxes:

The Company has available non-capital losses carryforward for income tax purposes, the benefit of which has not been recorded, of approximately $20,475,075 (2002 - $20,214,000) to be applied against future years' taxable income. The losses expire as follows:

2004	$	3,893,542
2005		1,463,067
2006		2,267,304
2007		210,393
2008 and thereafter		12,640,769
	$	20,475,075

12. Income taxes (continued):

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

		2003		2002
Future tax assets:				
Non-capital loss carryforwards	$	7,050,677	$	7,489,220
Capital assets		583,748		434,449
Inventory		895,129		957,084
Financing costs		–		8,991
General reserves and goodwill		100,439		75,296
Interest		1,532,039		1,736,180
Unrealized foreign exchange loss		510,217		–
		10,672,249		10,701,220
Less valuation allowance		10,477,830		10,612,336
		194,419		88,884
Future tax liabilities:				
Unrealized foreign exchange gain		110,521		–
Capital assets		83,898		88,884
		194,419		88,884
Net future tax assets	**$**	**–**	**$**	**–**

The average statutory Canadian income tax rate for the year ended December 31, 2003 was 36.12% (2002 - 38.63%). A comparison of nominal provisions at these rates, with the amounts provided in the consolidated statements of operations and deficit, is as follows:

		2003		2002
Earnings (loss) before income taxes	**$**	**(964,744)**	**$**	**35,844**
Nominal tax charge (recovery) at average statutory Canadian income tax rate	$	(348,500)	$	13,800
Increase (decrease) in income taxes due to valuation allowance		348,500		(13,800)
State income taxes		42,183		92,166
Income Taxes	**$**	**42,183**	**$**	**92,166**

Years ended December 31, 2003 and 2002

13. 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 6.

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.

14. Segmented information:

The Company operates in Canada and internationally in one dominant industry segment (foot orthotics and associated computer systems). Revenue is attributed to geographic areas based on location of customer. International sales are predominantly sales to the United States.

	2003	2002
Revenue:		
Canada	$ 5,802,801	$ 5,938,540
International	8,235,626	9,458,713
	$ 14,038,427	**$ 15,397,253**
Gross profit:		
Canada	$ 3,279,554	$ 3,274,243
International	4,584,150	5,384,272
	$ 7,863,704	**$ 8,658,515**
Capital assets:		
Canada	$ 751,830	$ 932,623
International	324,793	381,615
	$ 1,076,623	**$ 1,314,238**

Footmaxx Board of Directors

Michael Decter
Chairman (1)
Lawrence & Co.
Toronto, ON

Lenny Simak
Footmaxx Holdings Inc.
Toronto, ON

Grant McCutcheon
Lawrence & Co.
Toronto, ON

Michael Cohen
VenGrowth Capital
Management Inc.
Toronto, ON

Michael A. Kehoe
Innova LifeSciences
Corporation
Toronto, ON

John R. Kennedy
Toronto, ON

Connie Curran, EdD, RN(2)
Chicago, IL USA

Footmaxx Officers

Lenny Simak
President & CEO

Jon Kelly
Director Finance & IT

(1) Michael Decter resigned as of March 2004 - elected David Banks, Lawrence & Co. board member appointee and current Chairperson
(2) Connie Curran resigned as of August 2003 – seat vacant

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M5L 1B2

STOCK INFORMATION
FMX (TSX Venture Exchange)

STOCK CERTIFICATE CUSIP NUMBER:
344910 20 3

PROVINCE OF INCORPORATION:
Footmaxx Holdings Inc., Ontario (1994)

STATE OF INCORPORATION
Footmaxx Inc. Delaware, USA (1996)

REGISTRAR AND TRANSFER AGENT:
Equity Transfer Service Inc.
120 Adelaide Street West
Suite 420
Toronto, ON M5H 4C3

INVESTOR INFORMATION

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

(1) KPMG, LLP by board resolution will not be re-appointed as auditors for the Corporation.