STOCKGROUP INFORMATION SYSTEMS INC
Form 10KSB/A
May 01, 2006

**Form 10-KSB /A**

U.S. Securities and Exchange Commission

Washington, D.C. 20549

x Annual report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005.

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

Commission file number: 0-23687

## STOCKGROUP INFORMATION SYSTEMS INC.

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

| | |
|---|---|
| **Colorado**<br>(State or other jurisdiction of incorporation or organization) | **84-1379282**<br>(I.R.S. Employer Identification No.) |
| SUITE 500 - 750 W PENDER STREET<br>VANCOUVER BRITISH COLUMBIA CANADA V6C 2T7<br>(Address of principal executive offices) | A2<br>(Zip Code) |

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act [ ]

Check whether the issuer

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes [ ] No x

State issuer's revenues for its most recent fiscal year: 6,099,528

The aggregate market value of common equity held by non-affiliates of the registrant as of March 14, 2006 was approximately $10,850,000 million.

The number of shares outstanding of the registrant s common equity, as of March 14, 2006 was [33,906,806].

Documents incorporated by reference: none

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

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**STOCKGROUP INFORMATION SYSTEMS INC.**

FORM 10-KSB

For The Fiscal Year Ended December 31, 2005

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As used in this annual report, the terms we , us and our mean Stockgroup Information Systems Inc. and our subsidiaries, unless otherwise indicated**.**

**PART I**

**Item 1. Description of Business**

GENERAL

Stockgroup is a financial media and technology company. We license financial market data, content and software applications/tools, which our customers use on their Web sites. We also operate StockHouse.com and StockHouse.ca and generate advertising revenue therefrom. All of our services are delivered via the Internet.

PRODUCTS AND SERVICES

We have experience and understanding of Internet-based financial technology and media. Using a common technology infrastructure, we have developed two main revenue sources: (i) Financial Software and Content Systems and (ii) Advertising Services.

*Financial Software and Content Systems*

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

Many of the financial applications are data-feed driven. We either feed data from our own aggregated databases or from third parties. The advantage of using the Stockgroup system is that the customer is able to receive data and information from a variety of different feeds all from point of contact and at a fraction of the cost of purchasing all feeds individually. We also add value by customizing, filtering and sorting data in the configuration the customer wants and bundling this with our more than 30 financial Web based software applications. We are able to use our economies of scale and automation to give a service that is efficiently delivered and customized, and at a substantial cost savings to having the customer build and manage it internally.

Examples of some of the providers of third-party data feeds we use include Comstock, Zacks, Lipper, Comtex, The Canadian Press and The Associated Press.

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

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

The following are just a few of our over 30 Financial Software and Content Systems services:

- Real-time stock quotes on major U.S. and CAD. exchanges;
- North American 20-minute delayed stock quotes and indices;
- Stock portfolio management, live portfolio updates and wireless portfolio updates;
- Most active stock updates;
- Stock watch lists;
- Stock Streaming
- Company fundamentals, regulatory filings;
- Daily stock market winners/losers, most actives;
- Company profiles, stock screening (investment data) and technical stock analysis; and
- Employee stock option calculations.

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

- On a hosted basis where the content and private-labeled interface is hosted by Stockgroup and streamed to the customers Internet or Intranet site;
- Through the customers servers which use a proprietary interface to retrieve data from our servers;
- Through a secured Internet channel to a client s proprietary interface; or
- Through different wireless devices and modes including handheld devices, pagers and portals which have been built and maintained by us.

*Advertising Services*

We provide online disclosure and advertising services to a wide range of companies, mainly through our StockHouse Web site and related sites. Our target advertising clients are advertising agencies, media buyers and smaller publicly traded companies who need a cost-effective method of creating awareness of their company in the investment community.

Our Advertising Services include the following:

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

*E-mail Services* sold under the names *StockHouse News Blast, Special Situation Alert,* and *NewsHotline*, which are purchased by our clients to help them disseminate their news releases and other information to a select list of investors. Our e-mail lists consist of subscribers who have opted to receive our mailings and confirmed their subscription on a subsequent e-mail follow-up, a process known as double opt-in . We take great care to ensure that recipients actually want the e-mails we send them.

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

The StockHouse media property offers content aggregation from hundreds of sources, a comprehensive equities database and the Internet s first syndicated message forums, the BullBoards .

COMPETITION

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

CORPORATE BACKGROUND

We are a United States reporting public company incorporated in 1994 and registered in Colorado. Our shares are quoted on the OTCBB under the symbol SWEB and are listed on the TSX Venture Exchange under the symbol SWB . Our head office is in Vancouver, Canada, with regional offices in New York, NY and Toronto, Canada.

From 1995 to 1999 we operated a financial markets publishing business and Web site aimed at small and micro-cap clients.

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

From 2001 to 2002 we expanded our awareness and disclosure service line to include Sector Supplements and automated investor relations Web page tools such as the IntegrateIR. We already had a public company customer base, so the transition into this area was a natural extension of our core competencies. This formed the basis for our Public Company Disclosure and Awareness Products and Advertising revenue stream.

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

On June 24, 2002 and June 2, 2004, under an agreement with StockHouse Media Corporation, we acquired the Web site and certain related assets to run the StockHouse brand Web sites. The acquisition provided several key benefits to us including the addition of the StockHouse brand product line to our service offering and the integration of assets into our business.

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

Our corporate Web site is www.stockgroup.com.

EMPLOYEES

As of December 31, 2005, we employed 49 people on a full-time basis. None of our employees are subject to collective bargaining agreements. We believe relations with employees are good.

REGULATORY ISSUES

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

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND DOMAIN NAMES

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

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

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

EQUIPMENT

We have made an investment in servers and computer equipment required for our Web sites, streaming of data and hosting services. During the year we had leased additional servers for the purpose of building redundant sites. We have dedicated staff assigned to maintenance and support of these operations.

REPORTS TO SECURITY HOLDERS

We are not required to deliver an annual report to our stockholders but will voluntarily send an annual report, together with our annual audited financial statements. We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are available to the public over the internet at the Securities and Exchange Commission s website at http://www.sec.gov.

The public may read and copy any materials filed by us with the Securities and Exchange Commission at the Securities and Exchange Commission s Public Reference Room at 100 F Street N.E., Washington DC 20459. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-732-0330. We are an electronic filer. The Securities and Exchange Commission maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission. The internet address of the site is http://www.sec.gov.

SUBSIDIARIES

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

RESEARCH AND DEVELOPMENT

We do not conduct research. Our development activity during 2004 and 2005 has been mainly customer-driven.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "intends," "will," or similar terms. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations, (ii) the Company's business and growth strategies, (iii) the Internet and Internet commerce and (iv) the Company's financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors set forth under "Risk Factors" and elsewhere in this report. The discussion of the financial condition and results of operations of the Company contained in this annual report on Form 10-KSB should be read in conjunction with the financial statements and notes related thereto included elsewhere in this report.

**Item 2. Description of Property**

LEASEHOLD

Our corporate offices are composed of one floor of leased space located in the center of Vancouver s business community. We also lease premises for a sales office in Toronto and New York, NY. Our facilities are fully used for current operations.

| City | Monthly Payment | Lease Term | Expiry Date |
| --- | --- | --- | --- |
| Vancouver | US$16,389 | 8 years | March 2007 |
| Toronto | US$3,746 | 4 years | September 2008 |
| New York | US$2,800 | 1 years | September 2006 |

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**Item 3. Legal Proceedings**

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

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

The Company is currently involved in litigation with a vendor to recover approximately C$471,000 in unused advertising credits which were prepaid in 1999. The case is currently pending final resolution and there is considerable uncertainty as to what value, if any, will be derived if the Company wins the lawsuit. No provision has been made for recovery of these credits in the financial statements in any year.

In addition, the company is subject to various other legal matters in the ordinary course of business. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that the ultimate resolution of these matters would not have a material effect on the Company s financial position or results of operations.

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

None

**PART II**

**Item 5. Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities**

MARKET INFORMATION

Our common stock has been quoted for trading on the OTC Bulletin Board since March 17, 1999, and on the TSX Venture Exchange since December 17, 2002.

The following table sets forth high and low bid prices for our common stock on the OTC Bulletin Board for the quarterly periods ended March 31, 2004 through to December 31, 2005. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

| Quarter Ended | High | | Low | | Volume |
|---|---|---|---|---|---|
| March 31, 2004 | $ | 0.325 | $ | 0.250 | 3,778,200 |
| June 30, 2004 | $ | 0.330 | $ | 0.250 | 9,923,700 |
| September 30, 2004 | $ | 0.340 | $ | 0.255 | 7,390,970 |
| December 31, 2004 | $ | 0.370 | $ | 0.270 | 7,118,474 |
| March 31, 2005 | $ | 0.380 | $ | 0.330 | 5,208,515 |
| June 30, 2005 | $ | 0.360 | $ | 0.310 | 4,345,123 |
| September 30, 2005 | $ | 0.350 | $ | 0.300 | 4,542,251 |
| December 31, 2005 | $ | 0.350 | $ | 0.285 | 2,998,266 |

The following table sets forth high and low bid prices for our common stock on the TSX Venture Exchange for the eight quarterly periods ended December 31, 2005. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

| Quarter Ended | High | Low | Volume |
|---|---|---|---|
| March 31, 2004 | C$0.46 (US$0.35) | C$0.33 (US$0.25) | 2,046,300 |
| June 30, 2004 | C$0.46 (US$0.34) | C$0.35 (US$0.26) | 2,436,100 |
| September 30, 2004 | C$0.43 (US$0.33) | C$0.30 (US$0.23) | 761,954 |
| December 31, 2004 | C$0.48 (US$0.39) | C$0.34 (US$0.28) | 950,683 |
| March 31, 2005 | C$0.47 (US$0.39) | C$0.38 (US$0.31) | 408,436 |
| June 30, 2005 | C$0.45 (US$0.37) | C$0.38 (US$0.31) | 940,434 |
| September 30, 2005 | C$0.45 (US$0.39) | C$0.35 (US$0.30) | 527,505 |
| December 31, 2005 | C$0.42 (US$0.36) | C$0.34 (US$0.28) | 717,561 |

The closing price of our stock on the OTC Bulletin Board on March 14, 2006 was $0.32 and on the TSX Venture Exchange on March 14, 2006 was C$0.365.

Source: www.stockhouse.com

HOLDERS

On December 31, 2005, we had 115 holders of record, which does not include approximately 3,000 beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

DIVIDENDS

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

RECENT SALES OF UNREGISTERED SECURITIES

On June 2, 2004, under a Regulation S exemption, we issued 1,020,000 common shares valued at $290,700 to Stockhouse Media Corporation pursuant to a purchase of website assets.

All other issuances during the year were under our Stock Option Plan, which is registered on Form S-8.

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Our services can be categorized into two major segments: (i) Licensing of Financial Software and Content Systems and (ii) Advertising Services formerly known as Public Company Disclosure and Awareness Products and Advertising. There are basic commonalities between the two segments. All of our services relate to the financial markets and all of our services are currently delivered over the Internet.

Much of our sales are driven by popular interest in the stock markets. Our Financial Software and Content Systems business is driven by the demand for market information by our clients customers. Our Public Company Disclosure and Awareness Products and Advertising are in greater demand when there is greater overall demand for online advertising across all industries. Our audience levels on our StockHouse Web site are closely correlated with the popularity of the stock market. We believe that greater audience levels on StockHouse will translate into larger advertising revenues for us over the long term.

The Internet is the delivery vehicle for all of our products. We believe the Internet has not yet reached maturity and continues to reach new levels of sophistication. Increasing numbers of people are using the Internet as a source of stock market information. As a result, financial content is becoming an expected standard offering for media and financial services companies. Our Financial Software and Content Systems clients, including large news Web sites, brokerages, banks, and other media are encountering competitive pressures to improve their financial content offering. This market expansion has driven demand for our services and has resulted in continued sales growth over the past 12 months.

Effective January 1, 2005, the Company renamed the former segment, Public Company Disclosure and Awareness Products division, as Advertising Services. In addition, it re-classed the revenue from certain products, which were historically categorized as Advertising Services, formerly Public Company Disclosure and Awareness Products, to Financial Software and Content Systems.

The amount re-classified from Advertising Services to Financial Software and Content Systems for the year ended December 31, 2005 was $407,636. The reclassification for the comparative period in 2004 was $361,945.

Revenue and Gross Profits

Revenue Summary

| | 2005 | 2004 | Change ($) | Change (%) |
|---|---|---|---|---|
| For the year ended December 31 | | | | |
| Total revenues | $ 6,099,528 | $ 4,823,227 | $ 1,276,301 | 26% |
| Breakdown of major categories: | | | | |
| Financial Software and Content Systems | 2,982,027 | 2,055,242 | 926,785 | 45% |
| Advertising Services | 3,117,501 | 2,767,985 | 349,516 | 13% |

Previously reported revenue was:

| | 2004 |
|---|---|
| For the year ended December 31 | $ 4,823,227 |
| Total revenues | $ 1,693,297 |
| Financial Software and Content Systems | |
| Advertising Services formerly known as: | |
| Public Company Disclosure and Awareness Products | $ 3,129,930 |

Financial Software and Content Systems (FSCS) revenue has grown by 45% when comparing the fiscal years ended December 31, 2005 and 2004. The growth is attributable to a growing number of monthly agreements with new clients, renewals of existing agreements, and the expansion of our services to existing clients.

Our Advertising Services revenue includes general advertising on StockHouse and our specialty advertising products. The 13% growth between the fiscal years ended December 31, 2005 and 2004 is due in part to increased market size for online advertising in general. It is also the result of a greater demand among companies for highly targeted advertising to the investment community, which has enabled us to extract greater returns for our advertising inventory over time. We have developed a certain level of access to the investment community through our StockHouse Web site. Our access and StockHouse brand name give us the ability to provide a range of advertising services for companies. This exposure is highly valued, and is normally sold as a comprehensive monthly program which gives clients sustained and multi-faceted exposure to potential investors.

Cost of Revenues and Gross Profit Summary

| For the year ended December 31 | 2005 | 2004 | Change ($) | Change (%) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Total revenue | $ 6,099,528 | $ 4,823,227 | $ 1,276,301 | 26% |
| Total cost of revenues | $ 1,459,319 | $ 910,949 | $ 548,370 | 60% |
| Gross profit | $ 4,640,209 | $ 3,912,278 | $ 727,931 | 19% |
| Gross margin % | 75% | 81% | | |

Our cost of revenues consists of bandwidth, data feeds, exchange fees and other direct product costs. Bandwidth costs are correlated with changes in our StockHouse and Financial Software and Content Systems traffic, both of which have increased from fiscal 2004 to fiscal 2005. We have incurred a number of incremental increases in our data feed costs as we have procured higher quality data from our vendors over the past twelve months, which account for part of the 60% increase from fiscal 2004 to fiscal 2005. In addition, some stock exchanges have recently charged new or increased fees for data access. Overall, the increases in cost of revenue we have experienced have been more than the increase in revenue, as evidenced by our gross margin percentage which has decreased from 81% to 75% between fiscal 2004 and fiscal 2005.

Operating Expenses

| Operating Expenses Summary | | 2005 | | 2004 | | Change ($) | Change (%) |
|---|---|---|---|---|---|---|---|
| For the year ended December 31 | | | | | | | |
| Total operating expenses | $ | 4,699,122 | $ | 3,913,314 | $ | 785,808 | 20% |
| Breakdown: | | | | | | | |
| Sales and marketing | | 1,802,965 | | 1,515,280 | | 287,685 | 19% |
| General and administrative | | 2,896,157 | | 2,398,034 | | 498,123 | 21% |

Sales and marketing expenses increased by 19% for the fiscal year ended December 31, 2005 when compared with the same period in fiscal 2004. The increases are due primarily to an increase in the number of sales staff between 2004 and 2005, establishing a New York office and a greater emphasis on marketing activities. The compensation and training expense arising from this increase in sales staff accounts for the increase in sales and marketing expense year over year, and we believe this will result in an increase in revenue over the long term. In addition, we experienced increased commissions expense due to increased sales year over year.

General and administrative expense increased by 21% between fiscal 2004 and fiscal 2005. This increase is due to several factors, most notably increased payroll due to general expansion, increased staffing, and the expansion of our senior management team.

Other Income (Expense)

Interest and Other Income (Expense) Summary

| For the year ended December 31 | 2005 | 2004 |
|---|---|---|
| Total interest and other income (expenses) | $ 27,789 | $ 16,659 |
| Breakdown: | | |
| Interest income | 36,347 | 24,058 |
| Interest expense | (7,366) | (2,083) |
| Non-cash interest expense | - | - |
| Other income (expense) | (1,192) | (5,316) |

We earn interest income from our cash reserves which are held in major banks, either in interest bearing accounts or term deposits. Interest expense for the fiscal year ended December 31, 2005 consists of interest on capital leases. Other income (expense) consists of gains (losses) on marketable securities.

Net Income

The net (loss) income for fiscal 2005 and fiscal 2004 was $(58,590) and $15,623 respectively.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2005 we had cash and cash equivalents of $2,056,761, an increase of $219,749 over December 31, 2004. Our cash from (used in) operations for the past four quarters is as follows:

| | $ |
|---|---|
| Q1 2005 | 202,019 |
| Q2 2005 | 255,580 |
| Q3 2005 | 204,831 |
| Q4 2005 | (107,316) |

Our working capital at the end of 2005 was $1,185,485 compared with $1,326,510 in 2004.

We currently have no debt other than capital lease obligations. Capital lease obligations increased by $138,880 during 2005 for the purchase of servers and related computer equipment.

We have invested cash of $166,241 in property and equipment in fiscal 2005.

Our cash balance is expected to provide enough liquidity to allow us to execute our business plans for the next twelve months, including necessary computer hardware and software asset acquisitions.

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Working Capital is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similar measures disclosed by other issuers. This measure does not have a comparable GAAP measure. Working Capital is defined as current assets less current liabilities.

We do not expect to declare any cash dividends in the next twelve months.

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

## ACCOUNTING FOR AND DISCLOSURE OF GUARANTEES

From time-to-time we enter into certain types of contracts that contingently require us to indemnify parties against third party claims. These contracts primarily relate to: (i) service agreements, under which we may be required to indemnify clients for liabilities relating to data transmission and dissemination; (ii) certain agreements with our officers, directors and employees and third parties, under which we may be required to indemnify such persons for liabilities arising out of their duties to us.

We regularly enter into service level agreements with clients, under which we guarantee consistent streaming of data within certain pre-defined tolerances.

The terms of such obligations vary and generally an obligation is not explicitly stated. Historically, we have not been required to make significant payments for these obligations, as such no liabilities have been recorded for these obligations on our balance sheet as of December 31, 2005 and December 31, 2004.

The company generally purchases data including trademarked and copy-written data that may or may not be under contract. The advancement in technologies and increased sophistication of systems is resulting in increased scrutiny of data and costs. The company attempts to stay current with all vendors however the timing of identifying the vendors and costs of data may cause significant increase in cost of sales.

## OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at December 31, 2005 or December 31, 2004.

## RECENT PRONOUNCEMENTS

See Note 2 to the audited consolidated financial statements in this annual report on Form 10-KSB.

CRITICAL ACCOUNTING POLICIES

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

Revenue

Financial Software and Content Systems services consist of managing, licensing, and delivering financial market information. Examples of financial market information are real time stock quotes, stock charts, public company profiles, investment information and technical stock analysis. We use formal service agreements, which are typically for 24-month terms. Under the service agreements we normally charge our clients a set up fee, a fixed monthly fee, and additional fees for usage beyond the threshold specified in the agreement. Usage usually refers to Web site page views by the client s end users. Revenue from set up fees and fixed monthly licensing fees for ongoing use of financial tools and content is recognized ratably over the agreement term.

All Financial Software and Content Systems services are delivered via the Internet from our Web servers to the clients Web sites on a continuous real time basis. Revenue is earned starting on the day the service is delivered to the customer. We monitor usage from the day the service is activated and record any usage-based revenue on a monthly basis as it occurs. Many agreements contain service level agreements which specify minimum service standards and remedies, such as billing reductions, for deficiency of service. In cases where a billing adjustment occurs due to a service level deficiency, we reverse the applicable revenue in the month where the deficiency occurred.

Advertising Services consists of investor relations Web page tools, client advertising on our investment-oriented Web sites, e-mail services, sponsorships and Internet advertising services. These services are sold either individually or bundled together into comprehensive programs.

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

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

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

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

All sources of revenue are recorded pursuant to SAB 104 Revenue Recognition, when persuasive evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable and collectibility is reasonably assured.

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

Cost of Revenue

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

Allowance for Doubtful Accounts

We evaluate our accounts receivable and make judgments as to the collectibility of each account. In general, accounts greater than 90 days overdue are allowed for fully, with certain exceptions where prior special arrangements are agreed to with the customer. In some cases an allowance is made before 90 days if we have a reasonable belief that the collection of the account is doubtful.

Property and Equipment

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

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

Contingencies

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

We are currently involved in litigation with a customer to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a C$100,000 deposit and contracted us to provide certain advertising services. We delivered the requested services throughout October and November 2000; however, the defendant defaulted on all additional payments. We are suing the defendant for the C$351,800 balance owing, plus interest and costs. The defendant has filed a statement of defense and counterclaim to recover the C$100,000 deposit. No court date has been set at this time. Although our management currently believes the outcome of the litigation will be in our favor, they have not elected to aggressively pursue the litigation at this time. We have made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in the statement of operations in the period the litigation is resolved.

In addition, we are subject to various other legal matters in the ordinary course of business. It is not possible at this time to predict with any certainty the outcome of such litigation. Our management believes that the ultimate resolution of these matters would not have a material effect on our financial position or results of operations.

The company generally purchases data including trademarked and copy-written data that may or may not be under contract. The advancement in technologies and increased sophistication of systems is resulting in increased scrutiny of data and costs. The company attempts to stay current with all vendors however the timing of identifying the vendors and costs of data may cause significant increase in cost of sales.

CORPORATE DEVELOPMENTS DURING THE YEAR

A synopsis of corporate highlights for 2005 is as follows:

December 31, 2004 - Mr. Leslie Landes retired from the office of President and replaced Marcus New as Chairman of the Board. Marcus New remains a director and is now President and Chief Executive Officer.

June 6, 2005 - Mr. David Gillard resigned as our Chief Financial Officer.

July 15, 2005 Ms. Elisabeth DeMarse appointed to Board of Directors to be effective July 5, 2005

July 19, 2005 Mr. Doug Keast hired as Executive Vice President and Chief Financial Officer to be effective August 2, 2005. Mr. Keast served notice on January 23, 2006 that he will resign his position as Executive Vice President and Chief Financial Officer effective March 15, 2006.

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

We have no material off-balance sheet arrangements.

RISK FACTORS

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

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

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

*Computer equipment problems and failures could adversely affect business.*

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

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

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

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

In the aggregate, beneficial ownership of Stockgroup shares by management represents approximately 15% of issued and outstanding shares of common stock. These shareholders, if acting together, will be able to significantly influence all matters requiring approval by shareholders, including the election of directors and the approval of mergers or other business combinations transactions.

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

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

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

Because materials may be downloaded by the public on Internet services offered by us or the Internet access providers with whom we have relationships, and because third party information may be posted by third parties on our Web site through discussion forums and otherwise, there is the potential that claims will be made against us for defamation, negligence, copyright or trademark infringement or other theories. Such claims have been brought against providers of online services in the past. We have been named in two lawsuits in which defamation is alleged to have occurred on our Internet discussion forum called Bull Boards. The imposition of liability based on such claims could materially and adversely affect us.

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

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

The company generally purchases data including trademarked and copy-written data that may or may not be under contract. The advancement in technologies and increased sophistication of systems is resulting in increased scrutiny of data and costs. The company attempts to stay current with all vendors however the timing of identifying the vendors and costs of data may cause significant increase in cost of rates.

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

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

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

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

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

*Our stock price is vulnerable to buying and selling pressures*

As there is a limited market for our common stock, there may be considerable volatility in our stock price due to selling and buying pressures. Future sales of shares by our existing or future shareholders could cause the market price of our common stock to decline. There are currently approximately 31 million outstanding shares of our common stock which may be traded without restriction in any country.

*Our board of directors may authorize and issue preferred shares*

Our board of directors has the authority to issue preferred shares with rights, preferences and/or privileges senior to or on parity with the rights of the holders of common stock. The potential consequences to our investors include a loss of perceived value of the stock in the market and a loss of future earnings and dividends, if and when dividends are declared. Because some of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against the management for misconduct and may not be able to enforce judgement and civil liabilities against our officers, directors, experts and agents.

Some of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state.

**Item 7. Financial Statements**

Our financial statements are stated in United States dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

The following consolidated financial statements are filed as part of this annual report:

Consolidated Financial Statements

# Stockgroup Information Systems Inc.

December 31, 2005 and 2004

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

**Stockgroup Information Systems Inc.**

We have audited the accompanying consolidated balance sheets of **Stockgroup Information Systems Inc.** (and subsidiaries) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders equity 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Stockgroup Information Systems Inc.** (and subsidiaries) at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Vancouver, Canada,

February 27, 2006

Chartered Accountants

**Stockgroup Information Systems Inc.**

## CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 (expressed in US dollars)

| | 2005<br>$ | 2004<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | 2,056,761 | 1,837,012 |
| Marketable securities | 13,559 | 7,361 |
| Accounts receivable [net of allowances for doubtful accounts of $79,982; 2004 - $107,344] *[note 3]* | 760,294 | 595,848 |
| Prepaid expenses | 120,624 | 114,426 |
| **Total current assets** | **2,951,238** | **2,554,647** |
| Property and equipment, net *[note 4]* | 338,686 | 287,073 |
| | **3,289,924** | **2,841,720** |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 788,618 | 319,846 |
| Accrued payroll liabilities | 157,570 | 104,230 |
| Deferred revenue | 745,918 | 804,061 |
| Current portion of capital lease obligations *[note 6]* | 63,647 | |
| Income taxes payable | 10,000 | |
| **Total current liabilities** | **1,765,753** | **1,228,137** |
| Capital lease obligations *[note 6]* | 75,233 | |
| **Total Liabilities** | **1,840,986** | **1,228,137** |
| Commitments and contingencies *[note 10]* | | |
| **Shareholders equity** | | |
| Common stock, no par value *[note 7]* | | |
| Authorized shares - 75,000,000 | | |
| Issued and outstanding shares - 33,522,296 [2004 - 33,931,221] | **13,359,341** | **13,568,499** |
| Additional paid-in capital | **3,202,417** | **3,099,314** |
| Accumulated deficit | **(15,112,820)** | **(15,054,230)** |
| **Total shareholders equity** | **1,448,938** | **1,613,583** |
| | **3,289,924** | **2,841,720** |

*See accompanying notes*

**Stockgroup Information Systems Inc.**

## CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, 2005 (expressed in US dollars)

| | 2005 | 2004 |
|---|---|---|
| | $ | $ |
| **REVENUE** | | |
| Revenues *[note 8]* | 6,099,528 | 4,823,227 |
| Cost of revenues | 1,459,319 | 910,949 |
| **Gross profit** | **4,640,209** | **3,912,278** |
| **EXPENSES** | | |
| Sales and marketing | 1,802,965 | 1,515,280 |
| General and administrative | 2,896,157 | 2,398,034 |
| | **4,699,122** | **3,913,314** |
| Loss from operations | (58,913) | (1,036) |
| Interest income | 36,347 | 24,058 |
| Interest expense *[note 6]* | (7,366) | (2,083) |
| Other expense | (1,192) | (5,316) |
| **Income (loss) before income taxes** | **(31,124)** | **15,623** |
| Provision for income tax *[note 9]* | 27,466 | |
| **Net income (loss)** | **(58,590)** | **15,623** |
| **Basic and diluted earnings (loss) per share** | 0.00 | 0.00 |
| Weighted average number of common shares outstanding | 33,928,920 | 33,364,834 |
| Fully diluted weighted average number of common shares outstanding *[note 7(e)]* | 33,928,920 | 34,307,410 |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Year ended December 31, 2005 (expressed in US dollars)

| | Common stock | Common stock | Additional paid-in capital | Accumulated deficit | Total shareholders equity |
|---|---|---|---|---|---|
| *[note 7]* | **# of shares** | $ | $ | $ | $ |
| **Balance at December 31, 2003** | 32,498,721 | 13,218,924 | 3,099,314 | (15,069,853) | 1,248,385 |
| Issuance of common stock pursuant to exercise of employee stock options | 412,500 | 58,875 | | | 58,875 |
| Issuance of common stock pursuant to StockHouse asset acquisition *[note 5]* | 1,020,000 | 290,700 | | | 290,700 |
| Net income and Comprehensive income | | | | 15,623 | 15,623 |
| **Balance at December 31, 2004** | 33,931,221 | 13,568,499 | 3,099,314 | (15,054,230) | 1,613,583 |
| Issuance of common stock pursuant to exercise of employee stock options | 136,125 | 24,538 | - | - | 24,538 |
| Warrants exercised | 145,000 | 41,920 | - | - | 41,920 |
| Repurchase of common shares | (690,050) | (275,616) | 61,126 | - | (214,490) |
| Stock based compensation expense | - | - | 41,977 | - | 41,977 |
| Net loss and Comprehensive loss | - | - | - | (58,590) | (58,590) |
| **Balance at December 31, 2005** | **33,522,296** | **13,359,341** | **3,202,417** | **(15,112,820)** | **1,448,938** |

*See accompanying notes*

**Stockgroup Information Systems Inc.**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2005 (expressed in US dollars)

| | **2005** | **2004** |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net income (loss) | (58,590) | 15,623 |
| Add (deduct) non-cash items | | |
| Amortization | 274,600 | 393,168 |
| Bad debt expense | 12,126 | 62,328 |
| Stock based compensation | 41,977 | |
| | 270,113 | 471,119 |
| Net change in operating assets and liabilities *[note 11]* | 285,001 | 23,652 |
| **Cash provided by (used in) operating activities** | **555,114** | **494,771** |
| **FINANCING ACTIVITIES** | | |
| Repurchase of common stock | (214,490) | |
| Proceeds on exercise of warrants | 41,920 | |
| Proceeds on exercise of stock options | 24,538 | 58,875 |
| Repayment of capital lease obligation | (21,092) | (38,920) |
| **Cash provided by financing activities** | **(169,124)** | **19,955** |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (166,241) | (77,909) |
| **Cash used in investing activities** | **(166,241)** | **(77,909)** |
| Increase in cash and cash equivalents | 219,749 | 436,817 |
| Cash and cash equivalents, beginning of year | 1,837,012 | 1,400,195 |
| **Cash and cash equivalents, end of year** | **2,056,761** | **1,837,012** |

*See accompanying notes*

**NOTES**

**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Stockgroup Information Systems Inc. (the Company ) is a financial media and technology company that provides various financial Internet solutions, tools, content and services to media, corporate, and financial services companies. The Company employs proprietary technologies that enable it to provide its clients with financial data streams and news combined with fundamental, technical, productivity, and disclosure tools. The Company also provides advertising services through its www.stockhouse.com financial Web site.

The Company was incorporated under the laws of Colorado on December 6, 1994.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

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

**Use of estimates**

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

**Revenue recognition**

The Company generates its revenues from two primary sources: Financial Software and Content Systems and Advertising Services.

Advertising Services consist of Internet advertising, e-mail advertising, investor relations Web page services. These services are sold either individually or bundled together into comprehensive programs.

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

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

Advertising on the Company s investment-oriented Web sites consists of continuous or rotating advertisements and client profiles on various specialized Web pages within StockHouse.com, Smallcapcenter.com and InvestorMarketPlace.com. Delivery of these profiles is based either on a certain number of days appearing on the Web pages or a certain quantity of impressions, profile views or click-throughs, depending on the agreement. An impression is a single instance of an Internet user viewing the page that contains the client s name and/or logo. A profile view is a single instance of an Internet user clicking on the client s profile link. A click-through is a single instance of an Internet user clicking on the client s profile and being redirected to the client s Web site. Revenue is recognized on such advertising programs based on the proportionate units of advertising delivered each month.

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

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

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

All sources of revenue are recorded pursuant to SAB 104 Revenue Recognition, when persuasive evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable and collectibility is reasonably assured.

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

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

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

**Cost of Revenue**

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

**Foreign exchange**

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

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

**Fair value of financial instruments**

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

**Allowance for Doubtful Accounts**

The Company evaluates its accounts receivable and makes judgments as to the collectibility of each account. In general, accounts over 90 days overdue are allowed for fully, with certain exceptions where prior special arrangements are agreed to with the customer. In some cases an allowance is made before 90 days if the Company has a reasonable belief that the collection of the account is doubtful.

**Leases**

Leases are classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. Capital lease obligations reflect the present value of future minimum lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

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

**Cash and cash equivalents**

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

**Marketable securities**

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

**Property and equipment**

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

| | |
|---|---|
| Computer equipment | 5 years |
| Computer equipment under capital lease | 2-5 years |
| Computer software | 1 year |
| Website software | 3 years |
| Office furniture and equipment | 5 years |
| Leasehold improvements | Term of the lease |

**Product development costs**

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

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

**Income taxes**

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

**Stock-based compensation**

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ), as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123 ( SFAS 148). The pro-forma disclosure of stock based compensation is included in Note 7[c].

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

**Earnings (loss) per share**

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during each year. Diluted earnings (loss) per share reflects the dilutive potential of outstanding securities using the treasury stock method. Diluted loss per share is equivalent to basic loss per share for the year ended December 31, 2005 as the outstanding options and warrants are anti-dilutive.

**Comprehensive income (loss)**

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

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

**Recent pronouncement**

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ), which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure, as was permitted under SFAS 123, is no longer an alternative.

SFAS 123(R) must be adopted no later than January 1, 2006. Early adoption is permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company expects to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25 s intrinsic value method, and as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R) s fair value method will have a significant impact on the Company s statement of operations, although it will have no impact on the Company s overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income (loss) and earnings (loss) per share in Note 7[c] to these consolidated financial statements.

**Comparative figures**

The Company has reclassified certain of the figures presented for comparative purposes to conform with the financial statement presentation adopted in the current year.

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**3. CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash equivalents and trade receivables. Included in cash equivalents are US denominated term deposits of $1,600,000.

The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Two customers each account for greater than 10% of the outstanding receivables at December 31, 2005. One customer accounts approximately 14% of the outstanding receivables at December 31, 2004.

**4. PROPERTY AND EQUIPMENT**

| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
|---|---|---|---|
| **2005** | | | |
| Computer equipment | 684,080 | 567,654 | 116,426 |
| Computer equipment under capital lease | 309,028 | 172,149 | 136,879 |
| Computer software | 222,257 | 190,571 | 31,686 |
| Website software *[note 5]* | 637,822 | 637,822 | |
| Office furniture and equipment | 160,216 | 145,754 | 14,462 |
| Leasehold improvements | 109,563 | 70,331 | 39,233 |
| | **2,122,966** | **1,784,281** | **338,686** |
| **2004** | | | |
| Computer equipment | 634,948 | 554,060 | 80,888 |
| Computer equipment under capital lease | 157,579 | 157,579 | |
| Computer software | 161,161 | 156,541 | 4,620 |
| Website software | 637,822 | 455,666 | 182,156 |
| Office furniture and equipment | 144,199 | 144,188 | 11 |
| Leasehold improvements | 61,044 | 41,646 | 19,398 |
| | **1,796,753** | **1,509,680** | **287,073** |

**5. ASSET ACQUISITION**

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

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

On June 2, 2004, the Company exercised its option to acquire the remaining 35% of the Web site and related software assets of StockHouse with the issuance of 1,020,000 additional common shares with a fair value of $290,700.

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**6. CAPITAL LEASE OBLIGATION**

Future minimum lease payments are as follows:

| Year ending December 31, | **Capital Leases** |
|---|---|
| 2006 | $70,965 |
| 2007 | 68,959 |
| 2008 | 14,331 |
| **Total minimum lease payments** | **$154,255** |
| Less amounts representing interest | (15,375) |
| Present value of net minimum capital lease payments | $138,880 |
| Less current portion of capital lease obligations | (63,647) |
| **Capital lease obligations less current portion** | **$75,233** |

Interest expense related to capital lease obligations was $6,298 (2004 $2,083) for the year ended December 31, 2005.

**7. SHARE CAPITAL**

**[a] Authorized**

The Company is authorized to issue up to 75,000,000 shares of common stock and 5,000,000 shares of preferred stock. No preferred stock is issued and outstanding in the years presented.

**[b] Common stock**

**2005**

During the year ended December 31, 2005 the Company issued and repurchased common shares, which are summarized as follows:

During the year ended December 31, 2005, 145,000 common shares were issued pursuant to exercises of warrants for gross proceeds of $41,920.

During the year ended December 31, 2005, 136,125 common shares were issued pursuant to exercises of stock options for gross proceeds of $24,538.

During the year ended December 31, 2005, 690,050 common shares were repurchased for the purpose of retiring the shares. The cost to repurchase these shares was $214,490.

**2004**

During the year ended December 31, 2004 the Company issued 1,432,500 common shares, which are summarized as follows:

On June 2, 2004, 1,020,000 common shares were issued to StockHouse Media Corporation for the remaining 35% interest in certain Web assets. The shares had a fair value of $290,700 based on the market value on that date .

During the year ended December 31, 2004, 412,500 common shares were issued pursuant to exercises of stock options for gross proceeds of $58,875.

**7. SHARE CAPITAL (cont d.)**

**[c] Stock options**

**1999, 2000, 2001, 2002, and 2003 Incentive Stock Option Plans (collectively the Plans )**

The following table sets out the authorized shares under each plan:

| | Effective Date | Common Shares Authorized |
|---|---|---|
| 1999 Incentive Stock Option Plan | March 11, 1999 | 450,000 |
| 2000 Incentive Stock Option Plan | November 10, 2000 | 102,500 |
| 2001 Incentive Stock Option Plan | September 20, 2001 | 733,200 |
| 2002 Incentive Stock Option Plan | March 25, 2002 | 634,900 |
| 2003 Incentive Stock Option Plan | January 21, 2004 | 3,300,000 |
| Total authorized | | 5,220,600 |

The Plans entitle directors, employees and consultants to purchase common shares of the Company.

Options immediately become exercisable once vested. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve if they were granted under the 2003 Plan, otherwise they are not returned to the reserve.

When the Company became listed on the TSX Venture Exchange on December 17, 2002, it ceased issuing options under its 1999, 2000, 2001, and 2002 Plans, and filed a new 2003 Plan which conforms with the TSX Venture Exchange rules. The 898,278 shares previously available under the 1999, 2000, 2001, and 2002 Plans were effectively rendered unavailable by this undertaking. All outstanding options under the old Plans continue to be exercisable as vested until they are forfeited or expired.

Activity under the Plans is set forth below:

| | | Options Outstanding | | |
|---|---|---|---|---|
| | Shares available for grant | Number of shares | Price per share | Weighted average exercise price |
| Balance at December 31, 2002 | 898,278 | 2,602,700 | $0.12 - 0.59 | $0.20 |
| Additional shares authorized | (898,278) | | | |

| | | | | |
|---|---|---|---|---|
| Options granted | | | | |
| Options forfeited | | (95,700) | $0.15 - 0.40 | $0.32 |
| Options exercised | | (126,400) | $0.15 | $0.15 |
| Balance at December 31, 2003 | | 2,380,600 | $0.12 - 0.59 | $0.20 |
| Additional shares authorized | 3,300,000 | | | |
| Options granted | (1,863,500) | 1,863,500 | $0.21 0.31 | $0.28 |
| Options forfeited | 186,000 | (233,500) | $0.15 0.31 | $0.29 |
| Options exercised | | (412,500) | $0.12 - 0.15 | $0.14 |
| Balance at December 31, 2004 | 1,622,500 | 3,598,100 | $0.12 - 0.59 | $0.24 |
| Additional shares authorized | | | | |
| Options granted | (1,301,800) | 1,301,800 | $0.29 0.53 | $0.36 |
| Options forfeited | 634,375 | (634,375) | $0.26 0.53 | $0.39 |
| Options exercised | | (136,125) | $0.15 - 0.29 | $0.18 |
| Balance at December 31, 2005 | 955,075 | 4,129,400 | $0.12 - 0.59 | $0.26 |

**7. SHARE CAPITAL (cont d.)**

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as of December 31, 2005 are as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number of shares outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Shares exercisable | Weighted average exercise price |
| $0.12 - $0.15 | 332,400 | 2 | $0.14 | 330,000 | $0.14 |
| $0.16 - $0.20 | 300,000 | 2 | $0.16 | 300,000 | $0.17 |
| $0.21 - $0.25 | 1,133,200 | 2 | $0.22 | 1,108,200 | $0.22 |
| $0.26 - $0.30 | 1,294,500 | 3 | $0.28 | 1,019,188 | $0.28 |
| $0.31 - $0.35 | 869,300 | 4 | $0.31 | 313,125 | $0.31 |
| $0.36 - $0.40 | 150,000 | 4 | $0.36 | 51,875 | $0.36 |
| $0.59 | 50,000 | 1 | $0.59 | 40,000 | $0.59 |
| | 4,129,400 | 2.91 | $0.26 | 3,162,388 | $0.24 |

For the years ended December 31, 2005 the Company recorded $41,977 for stock based compensation expense compared with $Nil in 2004.

**Pro forma disclosure of stock based compensation**

Pro forma information regarding results of operations and loss per share is required by SFAS 123 for stock-based awards to employees as if the Company had accounted for such awards using a valuation method permitted under SFAS 123.

The fair value of the Company s stock-based awards granted to employees in 2005 was estimated using the Black-Scholes option pricing model and amortized over the vesting period. The option pricing assumptions include a dividend yield of 0% [2004 0%], a weighted average expected life of 4 years [2004 4 years], a risk free interest rate of 3.9% [2004 3.51%], and an expected volatility of 49% [2004 66%]. The weighted average fair value of options granted during 2005 was $036. [2004 - $0.28]. For pro forma purposes, the estimated value of the Company s stock-based awards to employees is amortized over the vesting period of the underlying options. The effect on the Company s net income (loss) and earnings (loss) per share of applying SFAS 123 to the Company s stock-based awards to employees would approximate the following:

| 2005 | 2004 |
|---|---|
| $ | $ |

| | | |
|---|---|---|
| Net income (loss) | (58,590) | 15,623 |
| Stock based compensation expense recorded in net income | 41,977 | - |
| Compensation expense | (157,371) | (185,140) |
| Pro forma net loss | (173,984) | (169,517) |
| | | |
| **Basic and diluted income (loss) per share** | | |
| As reported | 0.00 | 0.00 |
| Pro forma | (0.01) | (0.01) |

**7. SHARE CAPITAL (cont d.)**

**[d] Warrants**

As at December 31, 2005, common stock issuable pursuant to warrants outstanding is as follows:

| | Outstanding at January 1 | Issued | Exercised | Forfeited | Outstanding at December 31 | Exercise Price | Expiry |
|---|---|---|---|---|---|---|---|
| **2005** | # | # | # | # | # | $ | **Date** |
| Series 1 | 281,818 | | | 281,818 | | $3.00 | March 31, 2005 |
| Series 3A | 500,000 | | 25,000 | 475,000 | | $0.25 | July 31, 2005 |
| Series 3B | 300,000 | | | 300,000 | | $0.50 | July 31, 2005 |
| Series 8 | 498,000 | | | 498,000 | | $0.50 (C$0.60) | January 16, 2005 |
| Series 9 | 374,280 | | 120,000 | 254,280 | | $0.31 (C$0.37) | June 4, 2005 and July 16, 2005 |
| Series 10 | 49,800 | | | 49,800 | | $0.50 (C$0.60) | January 16, 2005 |
| | 2,003,898 | | 145,000 | 1,858,898 | | | |

| | Outstanding at January 1 | Issued | Exercised | Forfeited | Outstanding at December 31 | Exercise Price | |
|---|---|---|---|---|---|---|---|
| **2004** | **#** | **#** | **#** | **#** | **#** | **$** | **Expiry Date** |
| Series 1 | 281,818 | | | | 281,818 | $3.00 | March 31, 2005 |
| Series 3A | 500,000 | | | | 500,000 | $0.25 | July 31, 2005 |
| Series 3B | 300,000 | | | | 300,000 | $0.50 | July 31, 2005 |
| Series 8 | 1,871,400 | | | 1,373,400 | 498,000 | $0.50 (C$0.60) | January 16, 2005 |
| Series 9 | 374,280 | | | | 374,280 | $0.31 (C$0.37) | June 4, 2005 and July 16, 2005 |
| Series 10 | 187,140 | | | 137,340 | 49,800 | $0.50 (C$0.60) | January 16, 2005 |
| | 3,514,638 | | | 1,510,740 | 2,003,898 | | |

The Series 8 and 10 warrants were originally issued with an exercise price of C$0.75 and an expiry date of June 4, 2004 and July 16, 2004. On February 5, 2004 the exercise price of the warrants was reduced to C$0.60 and the expiry date was extended to December 4, 2004 and January 16, 2005.

**[e] Earnings (loss) per share**

| **Basic earnings (loss) per share** | **2005** | **2004** |
|---|---|---|
| Earnings (loss) for the year | $(58,590) | $15,623 |

| | | |
|---|---|---|
| Weighted average number of common shares outstanding | 33,928,920 | 33,364,834 |
| Basic earnings (loss) per share | $0.00 | $0.00 |

**Diluted earnings (loss) per share**

| | | |
|---|---|---|
| Earnings (loss) for the year | $ (58,590) | $ 15,623 |
| Weighted average number of common shares outstanding | 33,928,920 | 33,364,834 |
| Dilutive effect of Series 3A Warrants | | 76,271 |
| Dilutive effect of Series 9 Warrants | | 30,351 |
| Dilutive effect of stock options | | 835,954 |
| Adjusted weighted average number of common shares outstanding | 33,928,920 | 34,307,410 |
| Diluted earnings (loss) per share | $0.00 | $0.00 |

**8. SEGMENTED INFORMATION**

The Company operates in one industry segment and derives its revenue from the following services noted in the table below. The Company defines reportable operating segment as components of the Company about which separate financial information is available and which is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

| | **2005** | **2004** |
|---|---|---|
| | $ | $ |
| Advertising Services | **3,117,501** | 3,129,930 |
| Financial Software and Content Systems | **2,982,027** | 1,693,297 |
| | **6,099,528** | 4,823,227 |

During 2005 and 2004, the Company had no customers whose revenue represented greater than 10% of total revenue.

Substantially all of the Company s property and equipment is located in Canada. Its current and planned future operations are, and will be, located in Canada.

In the normal course of business, the Company entered into a non-monetary transaction with a vendor in November, 2005. The agreement was related to a promotion the Company s StockHouse websites in which the vendor would provide promotional items in exchange for advertising. As at December 31, 2005 there were no revenues or expenses relating to this agreement as the placement of those advertising credits were delayed. The amount of the transaction was for approximately $13,500 and will be realized in 2006.

In the normal course of business, the Company entered into a non-monetary transaction with a bandwidth provider on March 27, 2003, in which the Company received bandwidth in exchange for advertising services on the Company s Web sites. This contract expired on March 27, 2005 and was not renewed. The non-monetary transaction resulted in revenue of $13,695 for the year ended December 31, 2005 with a corresponding expense included in cost of revenues in the period. The non-monetary pricing was at fair market prices based on equivalent services paid for in cash during the same period.

**9. INCOME TAXES**

The Company is subject to United States federal and state income taxes at an approximate rate of 35%. The reconciliation of the provision for income taxes at the United States federal statutory rate compared to the Company s income tax expense as reported is as follows:

| | **2005** **$** | **2004** $ |
|---|---|---|
| Tax expense (recovery) at U.S. statutory rates | **(20,500)** | 5,000 |
| Lower (higher) effective income taxes of Canadian subsidiary | | (12,000) |
| Change in valuation allowance | **146,000** | 516,000 |
| Change in foreign exchange rates | **(217,000)** | (441,000) |
| Non-deductible expenses | **71,000** | (57,000) |
| Other | **47,900** | (23,000) |
| Income tax provision | **27,400** | |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company s deferred tax assets as of December 31 are as follows:

| | **2005** $ | **2004** $ |
|---|---|---|
| Net operating loss carryforwards | **3,278,000** | 3,231,000 |
| Net capital loss carryforwards | **110,000** | 110,000 |
| Property and equipment | **675,000** | 581,000 |
| Other | **303,000** | 298,000 |
| Total deferred tax assets | **4,366,000** | 4,220,000 |
| Valuation allowance | **(4,366,000)** | (4,220,000) |
| Net deferred tax assets | | |

The Company has recognized a valuation allowance for the deferred tax assets for which it is more likely than not that realization will not occur.

**9. INCOME TAXES (cont d.)**

The net operating loss carryforwards expire as follows:

| | | $ |
|---|---|---|
| **Canada** | | |
| 2006 | | 1,895,000 |
| 2007 | | 3,095,000 |
| 2008 | | 621,000 |
| | 5,611,000 | |
| **U.S.** | | |
| 2019 | | 950,000 |
| 2020 | | 1,494,000 |
| 2021 | | 135,000 |
| 2022 | | -- |
| 2023 | | 1,016,000 |
| 2024 | | 161,000 |
| | 3,756,000 | |
| **Total** | | 9,367,000 |

The Company also has net capital losses of $310,000 available to offset future taxable capital gains in Canada.

Pursuant to Section 382 of the Internal Revenue Code, use of the Company s net operating loss carryforwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact the Company s ability to utilize net operating losses and credit carryforwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate. The Canadian non-capital loss carryforwards may also be limited by a change in Company ownership.

**10. COMMITMENTS AND CONTINGENCIES**

[a] The Company has operating lease commitments with respect to office premises with minimum annual payments that expire in 2006, 2007 and 2008 as follows:

| | $ |
|---|---|
| 2006 | 266,818 |
| 2007 | 94,120 |
| 2008 | 33,715 |
| | 394,653 |

Rental expense included in general and administrative expenses for the year ended December 31, 2005 was $320,957 [2004 - $274,000]. On January 27, 2005, the Company terminated the lease of its New York office. Under the terms of the termination agreement, the Company paid a $40,000 termination fee, forfeited its right to a $40,000 security deposit and paid 50% of back rent owing which totaled $26,000. The termination fee and the security deposit forfeiture was recorded in the financial statements for the year end December 31, 2005.

[b] The Company is currently involved in litigation with a customer to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a C$100,000 deposit and contracted the Company to provide certain lead generation services. The Company delivered the requested services throughout October and November 2000, however, the defendant defaulted on all additional payments. The Company is suing the defendant for the C$351,800 balance owing, plus interest and costs. The defendant has filed a statement of defense and counterclaim to recover the C$100,000 deposit. As of December 31, 2004, no further action had been taken by either party and no court date has been set. Although management currently believes the outcome of the litigation will be in the Company s favor, it has not elected to aggressively pursue the litigation at this time. The Company has made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in the statement of operations as the litigation is resolved.

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

The Company is currently involved in litigation with a vendor to recover approximately C$471,000 in unused advertising credits which were prepaid in 1999. The case is currently pending final resolution and there is considerable uncertainty as to what value, if any, will be derived if the Company wins the lawsuit. No provision has been made for recovery of these credits in the financial statements in any year.

In addition, the Company is subject to various other legal matters in the ordinary course of business. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that the ultimate resolution of these matters would not have a material effect on the Company s financial position or results of operations.

**11. SUPPLEMENTAL CASH FLOW INFORMATION**

Net changes in operating assets and liabilities are as follows:

| | **2005**<br>$ | **2004**<br>$ |
|---|---|---|
| Marketable securities | (6,198) | (4,745) |
| Accounts receivable | (176,572) | (333,119) |
| Prepaid expenses | (6,198) | (34,778) |
| Accounts payable and accrued liabilities | 451,306 | 102,736 |
| Accrued payroll liabilities | 53,340 | (10,978) |
| Accrued interest on notes payable | | |
| Deferred revenue | (58,143) | 304,536 |
| Income tax payable | 27,466 | |
| | **285,001** | **23,652** |

Non-cash investing and financing activities are as follows:

| | **2005**<br>$ | **2004**<br>$ |
|---|---|---|
| Asset acquisition completed with the issuance of common stock | | 290,700 |
| Capital assets acquired by capital lease | **159,972** | |

Cash amounts paid for interest are as follows:

| | **2005**<br>$ | **2004**<br>$ |
|---|---|---|
| Cash paid for interest | **7,366** | 2,083 |

**12. ACCOUNTING FOR AND DISCLOSURE OF GUARANTEES**

The Company from time-to-time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) service agreements, under which the Company may be required to indemnify clients for liabilities relating to data transmission and dissemination; and (ii) certain agreements with the Company s officers, directors and employees and third parties, under which the Company may be required to indemnify such persons for liabilities arising out of their duties to the Company.

The Company regularly enters into service level agreements with clients, under which the Company guarantees consistent streaming of data within certain pre-defined tolerances.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of December 31, 2005 and December 31, 2004.

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**Item 8. Changes in and disagreements with accountants on accounting and financial disclosure.**

There are no disagreements with accountants on accounting and financial disclosure.

**Item 8A. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

As required under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this annual report, being December 31, 2005. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's president and chief executive officer and chief financial officer. Based upon that evaluation, our company's president and chief executive officer and chief financial officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's president and chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

There were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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**Part III**

**Item 9. Directors, executive officers, promoters and control persons; compliance with section 16(a) of the Exchange Act.**

The following table sets forth, as of the date of this filing, the name, age and position of our directors, executive officers and other significant employees:

Director/Officer NOT
YET

| Name | Age | Since | Position with the Company |
|---|---|---|---|
| Marcus A. New | 35 | May 1995 | President, Chief Executive Officer and a Director |
| Leslie A. Landes | 61 | August 1998 | Chairman of the Board |
| Doug Keast | 45 | July 2005 | Executive Vice President / Chief Financial Officer |
| David N. Caddey | 56 | June 1999 | Director |
| Louis (Lee) deBoer II | 53 | October 1999 | Director |
| Jeffrey D. Berwick | 35 | July 2002 | Director |
| Patrick J. Spain | 53 | August 2004 | Director |
| Elisebeth H. DeMarse | 51 | June 2005 | Director |

The backgrounds of our directors, executive officers and significant employees are as follows: