ENVOY COMMUNICATIONS GROUP INC
Form 20-F
February 18, 2003

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As filed with the Securities and Exchange Commission on February 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

[ ] Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

OR

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2002

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission file number 0-30082

ENVOY COMMUNICATIONS GROUP INC.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant s name into English)
Ontario, Canada

(Jurisdiction of incorporation or organization)
172 John Street, Toronto, Ontario, Canada M5T 1X5

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

COMMON SHARES

(Title of Class)
The Nasdaq Small Cap Market

(Name of each exchange on which registered)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: At September 30, 2002 there were 21,528,694 common shares outstanding.

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 [ ]

Indicate by check mark which financial statement item the Registrant has elected to follow: Item 17 [ ] Item 18 [X]

Currency and Exchange Rates Information
All monetary amounts contained in this Form 20-F are, unless otherwise indicated, expressed in Canadian dollars. On February 17, 2003 the noon buying rate for Canadian Dollars as reported by the Federal Reserve Bank of New York was $1.00 U.S. to $1.5209 Cdn. (see Item 9 for further exchange rate information to U.S. currency.)

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PART I

Item 1. IDENTIFY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLES

Not applicable

Item 3. KEY INFORMATION

A. Selected Financial Data[1]

The following table sets forth in Canadian dollars selected financial data for Envoy for the fiscal years indicated below prepared in accordance with Canadian Generally Accepted Accounting Principles unless otherwise noted. The following selected financial data should be read in conjunction with the more detailed financial statements and the related notes thereto appearing elsewhere in this Form 20-F and the discussion under Item 5 Operating and Analysis of Financial Condition and Results of Operation herein. The statements of operations data of Envoy for the fiscal years ended September 30, 1998, and the balance sheet data of Envoy as of September 30, 1998, are derived from financial statements of Envoy that have been audited by BDO Dunwoody LLP, independent public accountants, which are not included in this Form 20-F. The selected financial data does not include statements of operations data or balance sheet data of any acquired operations prior to their respective acquisition effective dates.

	Fiscal Years Ended September 30,				
	2002[2]	**2001**[3]	**2000**[4]	**1999**[5]	**1998**[6]
	(all amounts in thousands, except per share data)				
Statement of Operations Data:					
Net Revenue	$ 59,121	$82,786	$60,790	$41,787	$13,491
EBITDA[7]	(2,375)	7,003	10,151	7,280	2,090
Net Earnings[8]	(53,379)	(2,895)	2,910	2,877	1,503
Net Earnings Per Share[8]	($2.54)	($0.14)	$ 0.15	$ 0.20	$ 0.15

(1) The financial statements of Envoy are prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP), which differs in certain significant respects from U.S. Generally Accepted Accounting Principles (U.S. GAAP). Reconciliation to U.S. GAAP is set forth in Note 20 to the Notes to the audited Financial Statements of Envoy as well as in Note 8 to the following table. Envoy s results of operations under U.S. GAAP for the years ended September 30, 2002, 2001 and 2000 are as disclosed in Note 20 to the Notes to the audited Financial Statements of Envoy.

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	Fiscal Years Ended September 30,				
	2002	**2001**	**2000**	**1999**	**1998**
	(all amounts in thousands)				
Balance Sheet Data:					
Current Assets	$ 27,447	$ 51,138	$ 43,337	$44,521	$15,684
Total Assets	49,174	113,850	102,308	75,748	25,330
Total Debt[(9)]	14,003	11,928	10,832	3,978	300
Shareholders Equity[(10)]	9,779	61,319	62,687	40,612	13,317
Retained Earnings[(11)]	(47,630)	5,603	8,403	5,493	2,682

(2) The exchange rate utilized with respect to the Statement of Operations Data for the year ended September 30, 2002 of Gilchrist is £1.00 to $2.3119 Cdn. and with respect to the Balance Sheet Data of Gilchrist is £1.00 to $2.4894 Cdn. The exchange rate utilized with respect to the Statement of Operations Data of Hampel Stefanides is $1.00 U.S. to $1.5731 Cdn. and with respect to the Balance Sheet Data of Hampel Stefanides is $1.00 U.S. to $1.5872 Cdn. Except as set forth in footnotes 2, 3, 4 and 5, no other acquisitions by Envoy materially affects the comparability of the information in the Selected Financial Data.

(3) The Statement of Operations Data for the year ended September 30, 2001 includes the results of operations of IDG, acquired effective as of January 1, 2001, for the nine month period from January 1, 2001 to September 30, 2001. See Item 4 Information on the Company for a description of this acquisition. The exchange rate utilized with respect to the Statement of Operations Data of Gilchrist is £1.00 to $2.2122 Cdn. and with respect to the Balance Sheet Data of Gilchrist is £1.00 to $2.3264 Cdn. The exchange rate utilized with respect to the Statement of Operations Data of Hampel Stefanides is $1.00 U.S. to $1.5785 Cdn. and with respect to the Balance Sheet Data of Hampel Stefanides is $1.00 U.S. to $1.5352 Cdn. Except as set forth in footnotes 2, 3 and 4, no other acquisitions by Envoy materially affect the comparability of the information in the Selected Financial Data.

(4) The Statement of Operations Data for the year ended September 30, 2000 includes the results of operations of Sage, acquired effective as of June 1, 2000, for the four month period from June 1, 2000 to September 30, 2000, and the results of operations of Gilchrist, acquired effective as of July 1, 2000, for the three month period from July 1, 2000 to September 30, 2000. See Item 4 Information on the Company for a description of such acquisitions. The exchange rate utilized with respect to the Statement of Operations Data of Gilchrist is £1.00 to $2.1885 Cdn. and with respect to the Balance Sheet Data of Gilchrist is £1.00 to $2.2163 Cdn. The exchange rate utilized with respect to the Statement of Operations Data of Hampel Stefanides is $1.00 U.S. to $1.4722 Cdn. and with respect to the Balance Sheet Data of Hampel Stefanides is $1.00 U.S. to $1.5035 Cdn. Except as set forth in footnotes 1, 3, and 4, no other acquisitions by Envoy materially affect the comparability of the information in the Selected Financial Data.

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(5) The Statement of Operations Data for the year ended September 30, 1999 includes the results of operations of Hampel Stefanides acquired effective as of October 1, 1998, for the entire twelve month period, the results of operations of Devlin acquired effective as of January 1, 1999 for the nine month period from January 1, 1999 to September 30, 1999, and the results of operations of Watt International, acquired effective as of May 1, 1999, for the five month period from May 1, 1999 to September 30, 1999. See Item 4 Information on the Company for a description of such acquisitions. The exchange rate utilized with respect to the Statement of Operations Data of Hampel Stefanides is $1.00 U.S. to $1.5029 Cdn. and with respect to the Balance Sheet Data of Hampel Stefanides is $1.00 U.S. to $1.4674 Cdn. Except as set forth in footnotes 1, 2 and 4, no other acquisitions by Envoy materially affect the comparability of the information in the Selected Financial Data.

(6) The Statement of Operations Data for the year ended September 30, 1998 includes the results of operations for the four month period from June 1, 1998 to September 30, 1998 of Promanad, acquired effective as of June 1, 1998. See Item 4 Information on the Company for a description of such acquisition. Except as set forth in footnote 1, 2 and 3, no other acquisitions by Envoy materially affect the comparability of the information in the Selected Financial Data.

(7) EBITDA represents earnings before interest, taxes, depreciation, and amortization before unusual items, restructuring costs and goodwill write-down (Adjusted EBITDA), we have excluded these charges as management believes such costs are non-recurring in nature

The following table sets forth, for the years indicated, a reconciliation of EBITDA to net earnings (loss).

	Years Ended September 30,		
	2002	**2001**	**2000**
Net earnings (loss)	$(53,379,435)	$(2,895,372)	$ 2,910,427
Adjustments to calculate EBITDA:			
Interest expense	1,245,126	743,600	407,473
Income tax	(4,853,540)	1,359,731	3,252,354
Depreciation	2,858,641	2,866,679	1,986,691
Amortization of goodwill	2,187,509	3,011,571	1,593,769
Amortization of intangible asset	24,197		
Write-down of goodwill	37,934,711		
Restructuring costs	10,857,534		
Unusual items	750,648	1,917,334	
EBITDA before unusual items, restructuring costs and goodwill write-down	$ (2,374,609)	$ 7,003,543	$10,150,714

(8) As reflected in Note 20 to the Notes to the audited Financial Statements of Envoy, in accordance with the reconciliation to U.S. GAAP set forth therein, the net earnings (loss) for the years ended September 30, 2002, 2001 and 2000 was ($54,396,047), ($3,830,675), and

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$2,910,427 and the diluted net earnings (loss) per share for the years ended September 30, 2002, 2001 and 2000 was ($2.59), ($0.18), and $0.15, respectively.

(9) Total debt includes both the current and long term portion of debt.

(10) As reflected in Note 20 to the Notes to the audited Financial Statements of Envoy, in accordance with the reconciliation to U.S. GAAP set forth therein, the shareholders equity as at September 30, 2002 and 2001 was $8,180,751 and $61,270,082, respectively.

(11) Retained earnings as of September 30, 2002, 2001, 2000, and 1999 excludes the cumulative foreign currency translation adjustment of $1,348,449, 832,880, ($314,328) and ($494,844), respectively. See Note 2(f) to the Notes to the audited Financial Statements of Envoy.

Envoy has never paid any dividends on its common shares and does not anticipate that it will pay any cash dividends on its common shares in the foreseeable future.

Exchange Rates

On February 17, 2003, the noon buying rate for Canadian dollars as reported by the Federal Reserve Bank of New York was $1.00 U.S. to 1.5209 Cdn. The following table sets forth for the periods indicated certain information regarding the exchange rate into U.S. currency of Canadian dollars. The rate of exchange means the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

	Fiscal Year Ended September 30,				
	2002	**2001**	**2000**	**1999**	**1998**
Average*	$ 1.5731	$ 1.5353	$ 1.4724	$ 1.5033	$ 1.5265

* The average rate means the average of the exchange rates on the last day of each month during the fiscal period.

	For the month ending					
	January 2003	**December 2002**	**November 2002**	**October 2002**	**September 2002**	**August 2002**
High	$ 1.5672	$ 1.5776	$ 1.5905	$ 1.5980	$ 1.5872	$ 1.5918
Low	1.5184	1.5476	1.5538	1.5583	1.5524	1.5538

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B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk factors

Envoy s business, financial condition and results of operations could be materially adversely affected by any of the following risks.

This Form 20-F contains forward-looking statements that involve risks and uncertainties. Envoy s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by Envoy described below and elsewhere in this form.

Financial The consolidated financial statements have been prepared on the going concern basis, which assumes the Company will continue its operations in the foreseeable future and will be able to realize its assets and satisfy its liabilities in the normal course of business. Certain conditions exist and events have occurred, as further described below that provide uncertainty regarding the Company s ability to continue as a going concern, with its existing operations. During fiscal 2002, the Company entered into a Forbearance Agreement with the lenders, which requires the Company to make monthly principal payments from December 31, 2002 through to March 31, 2003 and repay the balance of the loan by April 30, 2003. Consequently the loan is classified as a current liability and the working capital shortfall is approximately $7.7 million as at September 30, 2002. The Company s ability to repay its bank borrowings is dependent upon its ability to generate positive cash flow from operations, secure additional debt or equity financing under private placements, refinance or renegotiate its debt facility and/or sell all of, or a part of, its operating businesses. There can be no assurances that the Company will be successful in doing so. In the event the Company is unable to repay or refinance the bank loans from the above sources then the application of the going concern principle for financial statement reporting purposes may no longer be appropriate. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary.

General economic conditions The marketing and communications industry is cyclical and as a result it is subject to downturns in general economic conditions and changes in client business and marketing budgets. A significant portion of our business is with large multinational businesses, including large packaged goods companies and large food retailers who are less impacted by downturns in the economy. In an effort to both offer our clients services on an international scale, and to manage our exposure to broad economic conditions, Envoy has diversified geographically, operating across North America and in the United Kingdom.

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The marketing communications and design and industries are highly competitive. Envoy competes in each of the markets in which it operates. In the advertising/marketing field, Envoy competes with the operating agencies of international holding companies such as Omnicom Group Inc., Interpublic Group of Companies Inc., WPP Group PLC, Ogilvy & Mather (Canada) and Havas Advertising, as well as such regional and local agencies such as Cossette Communications Group Inc. In the design field, Envoy s design company Watt has competitors including Enterprise IG**,** Landor Associates, Interbrand Group, The FutureBrand Company, Seigelgale, and Fitch Inc.

Envoy depends on its key management personnel for its future success. Envoy relies on its key management personnel. Envoy s future success will depend upon its ability to attract and retain additional highly skilled personnel. If any of Envoy s officers or key employees leave Envoy, the relationships that they have with Envoy s clients could be lost. In addition, Envoy s ability to generate revenues directly relates to Envoy s personnel, both in terms of the number and expertise of the personnel Envoy has available to work on its projects and the mix of full time employees, temporary employees and contract service providers Envoy utilizes. The competition for employees at all levels of the marketing communications industry is intense and is increasing. As a result, if Envoy fails to retain existing employees or hire new employees when necessary, Envoy s business, financial condition and operating results could be materially and adversely affected.

Envoy s results of operations and its business depend on its relationship with a limited number of large clients. Set forth below is the percentage of net revenue during the fiscal year ended September 30, 2002 for each of Envoy s clients that accounted for 10% or more of its net revenue and for Envoy s five largest clients combined:

Client	**Fiscal Year Ended September 30, 2002**
Asda Stores Limited	18.9%
Wal-Mart Stores Inc.	11.7%
Safeway Incorporated	11.6%
Five largest clients combined	48.6%

There can be no assurance that Envoy will be able to maintain its historical rate of growth or its current level of revenue derived from any client in the future.

As is customary in the industries in which we operate, Envoy does not have long-term contracts with any of its clients. Envoy s clients generally have the right to terminate their relationships with Envoy without penalty and with relatively short or no notice. The termination of Envoy s business relationships with any significant client, or a material reduction in the use of

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Envoy s services by any significant client, could adversely affect Envoy s future financial performance.

Envoy s operating results may vary from period to period. Envoy s operating results have fluctuated in the past, and may continue to fluctuate in the future, as a result of a variety of factors, many of which are outside of Envoy s control, including:

- timing of new projects;
- reductions, cancellations or completions of major projects;
- the loss of one or more significant clients;
- the opening or closing of an office;
- Envoy s relative mix of business;
- changes in pricing by Envoy or competitors;
- employee utilization rates;
- changes in personnel;
- costs related to expansion of Envoy s business, including by acquisition;
- increased competition; and
- marketing budget decisions by Envoy s clients.

As a result of these fluctuations, period-to-period comparisons of Envoy s operating results cannot necessarily be relied upon as indicators of future performance. In some fiscal quarters Envoy s operating results may fall below the expectations of securities analysts and investors due to any of the factors described above.

The integration of acquired businesses may adversely affect Envoy s operating results. Envoy expects that the integration of businesses recently acquired by it as well as future acquisitions, if any, will place a significant burden on Envoy s management. Such integration is subject to risks and uncertainties, including:

- the inability to effectively assimilate the operations, services, technologies, personnel and cultures of the acquired entities;
- the potential disruption of Envoy s business; and
- the impairment or loss of relationships with employees and clients.

If in connection with Envoy s business acquisitions Envoy fails to integrate Envoy s operations successfully or on a timely basis, or if Envoy incurs unforeseen expenses, Envoy s financial performance could be materially and adversely affected. In addition, if Envoy is unable to identify complementary businesses to acquire or is unable to consummate acquisitions on acceptable terms, Envoy s expansion plans may be materially and adversely affected.

Continued growth of Envoy s business will place increased demands on its systems and resources and may impact Envoy s operating results. The expansion of Envoy s business and

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customer base has placed increased demands on Envoy s management, operating systems, internal controls and financial and physical resources. Envoy s continued growth, if any, may strain existing management and human resources, in particular, affecting Envoy s ability to attract and retain sufficient talented personnel. Consequently, Envoy may be required to increase expenditures to hire new employees, open new offices and invest in new equipment or make other capital expenditures. Any failure to expand any of the foregoing areas in an efficient manner could adversely affect Envoy s business. There also can be no assurance that Envoy will be able to sustain the rates of growth that Envoy has experienced in the past.

Conflicts of interest and exclusivity arrangements with Envoy s clients may limit Envoy s ability to provide services to others. Conflicts of interest between clients and potential clients are inherent in the marketing communications, design and technology industry. Moreover, as is customary in the marketing communications industry, Envoy has entered into exclusivity arrangements with many of Envoy s largest clients that restrict Envoy s ability to provide services to their competitors. Envoy has in the past been, and may in the future be, unable to take on new clients because such opportunities would require it to provide services to direct competitors of its existing clients. In addition, Envoy risks harming relationships with existing clients when it agrees to provide services to indirect competitors of existing clients. Prospective clients also may choose not to retain Envoy for reasons of actual or perceived conflicts of interest.

Item 4. INFORMATION ON THE COMPANY

The following Information on the Company contains forward-looking statements, which involve risks and uncertainties. Envoy s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Item 3 Risk Factors and elsewhere in this Form 20-F.

ENVOY COMMUNICATIONS GROUP INC.

General

Envoy operates internationally providing design, marketing and technology services in North America and Europe. Combining strategy, creativity, and innovation, Envoy s subsidiary companies deliver business-building solutions to over 200 leading global brands. Our clients include Asda Stores Limited (Asda), BASF Corporation (BASF), Cott Corporation (Cott), Famous Players Inc. (Famous Players), Fujifilm Pho Film Canada Inc. (Fujifilm), Lexus a division of Toyota Canada Inc. (Lexus), Nissan Canada Inc. (Nissan), Safeway Incorporated (Safeway), Scott Paper Ltd. (Scott Paper), Sprint Canada Inc. (Sprint Canada), Steelcase USA, Tetra Pak, and Wal-Mart Stores Inc. (Wal-Mart). We generated $59.1 million Cdn. of net revenue for our fiscal year ended September 30, 2002, $82.8 million Cdn. of net revenue for the year ended September 30, 2001 and $60.8 million Cdn. for the year ended September 30, 2000.

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The principal place of business of Envoy is located at 172 John Street, Toronto, Canada M5T 1X5. Envoy may be reached by telephone: (416) 593-7555 facsimile: (416) 593-4434. Envoy s website is www.envoy.to. Information contained in our website does not constitute a part of this Form 20-F.

A. History and Development of the Company

Envoy was incorporated under the laws of the Province of British Columbia, Canada as Potential Mines Ltd. in December 1973 and was continued under the laws of the Province of Ontario, Canada in December 1997. Since December 1997 Envoy has shifted the nature of its business to providing marketing communications and design services for promoting clients products, services and business messages utilizing such media as print, broadcast and the Internet. Envoy has grown, in large part, through strategic acquisitions. Certain material acquisitions by Envoy are described below.

Effective as of June 1, 1998, Envoy acquired Promanad Communications Inc. (Promanad), an advertising, public relations and corporate identity agency. Envoy expanded its geographic reach into the U.S. marketplace through its acquisition of Hampel Stefanides Inc. (Hampel Stefanides), effective as of October 1, 1998.

Effective as of May 1, 1999, Envoy acquired Watt International Inc. (Watt International), through which Envoy acquired the operations, substantially all of the assets and certain of the liabilities of The Watt Design Group Inc. (Watt Design), a Toronto-based provider of design, packaging, retail environments and marketing identity services to retailers. Envoy expanded its geographical reach into the United Kingdom and the continental Europe marketplace through its acquisition of Gilchrist Brothers Limited (Gilchrist), a United Kingdom based digital imaging and design firm, effective as of July 1, 2000. Effective as of January 1, 2001, Envoy acquired The International Design Group (Canada) Inc. (IDG), a Toronto-based retail planning and design firm. IDG was amalgamated with Watt International effective September 30, 2001. Watt International, Gilchrist and IDG are referred to collectively as (Watt).

During July 2001, Envoy launched John Street Inc. a Toronto based advertising and Communications initiative to replace the advertising business previously conducted by the Communiqué Group Inc. Envoy owns 70% of John Street Inc., and the shares held by the minority shareholders are mandatorily redeemable by Envoy at September 30, 2004 for cash consideration. No amount has been accrued in the financial statements as the purchase price will be determined and paid over a three-year period based on certain performance milestones.

Effective October 1, 2001, the Company acquired 100% of the outstanding shares of Commordore Conference Planners Inc. (Commodore), a conference and event marketing company.

Effective as of January 1, 1999, Envoy acquired Devlin Multimedia Inc. (Devlin), a Toronto-based website design and development company. Effective as of June 1, 2000, Envoy acquired Sage Information Consultants Inc. (Sage), a digital professional service firm operating in the United States and Canada. The assets of both Sage and Devlin were sold in

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November and October, respectively, 2002 and the Company will focus on the design and marketing communications business going forward.

B. Business Overview

Our Services

We provide strategic and creative marketing, design and technology services that help our clients build, maintain and leverage their products and brands. Our services help our clients build their public image, generate new revenue, create first-to-market opportunities and increase efficiencies and customer care.

Net revenue by type of service for the last three fiscal years is as follows: (all amounts in thousands)

	Fiscal 2002	Fiscal 2001	Fiscal 2000
Net revenue:			
Marketing	$ 12,428	$ 24,375	$ 28,773
Design	38,204	43,437	24,431
Technology	8,489	14,973	7,586
	$ 59,121	$ 82,785	$ 60,790

Net revenue by geographic region, based on the region the customer is located, is as follows: (all amounts in thousands)

	Fiscal 2002	Fiscal 2001	Fiscal 2000
Net revenue:			
Canada	$ 15,983	$ 21,826	$ 24,164
United States	27,708	40,970	32,560
United Kingdom and Continental Europe	15,430	19,989	4,066
	$ 59,121	$ 82,785	$ 60,790

Marketing

We provide comprehensive advertising/marketing services across various media. These services include strategic planning and consulting, creative concept development, off-line and on-line advertising production, account planning, market research, media planning and buying, event marketing and public relations.

We are committed to creating brand propositions that are unique, ownable and sustainable. Through our advertising agencies Hampel Stefanides and John Street we operate in the U.S. and Canada to provide our clients with a consistent marketing message.

Design

Watt is an international brand strategy, brand implementation and brand consultancy which was ranked by DesignWeek as one of the top ten design firms in the world.

We are involved with all aspects of the creation and execution of brand strategy. We help our clients develop national and private label brands, including the development of the product concept, brand name, image, brand packaging, design and marketing strategies.

We are involved in the strategic naming, developing and positioning of corporate images. We help our clients establish identities across their organizations by creating consistent identities for every aspect of their business. We focus on every aspect of the client s brand and identity, and we conduct brand audits to assess the impact and efficiency of our client s brands.

Our retail design group has designed many shopping malls, entertainment complexes, specialty retailers, superstores, airport retail spaces, retail department stores, banks and automobile maintenance stores. Our retail concepts have been utilized in over 40 countries, representing over 25 industries.

Our staff of designers, strategists help our clients develop new retail store concepts, design store layouts and assess and predict consumer shopping behaviour in both brick-and-mortar and online retail environments.

Technology

In response to the growing interest in the Internet and e-commerce we expanded our business to include technology as a key component of our overall service offering through the acquisition of Sage and Devlin. However, e-commerce and technology infastructure business slowed significantly in late 2001 and 2002 and our technology business also suffered a slowdown. During our first quarter in fiscal 2003, we have disposed of our technology companies.

Our Strategy

Our goal is to be our clients most valued business partner in building and leveraging their brands through marketing and design services. We believe that we have the creative talent, strategic thinking and executional expertise to offer our clients a truly integrated marketing communication strategy. We plan to pursue the following strategies:

Deliver high quality and internationally recognized services in each of our core disciplines.

Our brands have built strong reputations for delivering high quality services internationally. We intend to continue to offer services at this high standard in each of our core disciplines of marketing, design and technology. We believe that this focus on internationally based, leading edge capabilities will ensure that Envoy continues to attract and retain prominent clients and key talent.

Pursue strategic acquisitions.

Our historical growth has been achieved partially by way of strategic acquisition. We have used this strategic acquisition strategy to extend Envoy s geographic reach and breadth of service offering and to add a significant degree of diversification to our business model. The opportunities for continued growth through acquisition are currently more limited as a result of a shortage of available capital to fund such acquisitions.

Industry Overview

Worldwide Advertising Market

In this environment, we believe that companies are seeking to work with agencies that can deliver proven creative talent, a consistent marketing message worldwide and an integrated offering of advertising and marketing services that includes creative concept development, strategic planning and consulting, advertising production, media planning and buying, event and marketing.

Design Services

In all areas of marketing and product design, we believe that companies are looking to extend their customer relationships and influence consumer behavior. Design services encompass the entire customer experience, from product packaging to the retail environment, and are a key component of a company s marketing communications strategy.

The design services sector is rapidly evolving into a global marketplace, as companies are increasingly looking for expertise in the development and maintenance of their brands on a global basis. Companies are looking to firms that can deliver a consistent message to consumers through packaging and retail design, regardless of geography.

Government Regulations

The marketing communications industry is subject to extensive government regulation, both domestic and foreign, with respect to the truth in and fairness of advertising. There are also a number of US federal and state laws and regulations directed at the advertising and marketing of specific products, such as food and drug products. In addition, there has been an increasing tendency on the part of businesses to resort to the judicial system, as well as industry self-regulatory procedures, to challenge comparative advertising of their competitors on the grounds that the advertising is false and deceptive. There can be no assurance Envoy will not be subject to claims against it or Envoy s clients by other companies or governmental agencies or that such claims, regardless of merit, would not have a material adverse effect on Envoy s future operating performance.

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C. Organizational Structure

Envoy has operations in the United States, the United Kingdom, Continental Europe and Canada. Significant subsidiaries are as follows:

Company	% of Ownership	Jurisdiction of Incorporation
Communique Incentives Inc.	100	Ontario
Hampel Stefanides, Inc.	100	Delaware
Devlin Multimedia Inc.	100	Ontario
Watt International Inc.	100	Ontario
Sage Information Consultants Inc.	100	Ontario
Gilchrist Brothers Limited	100	United Kingdom
International Design Group	100	Ontario
John Street Inc.	70	Ontario

D. Property, Plants and Equipment

We currently operate offices in the following cities: London and Leeds (UK), New York, San Francisco, and Toronto. The terms of our principal leases are as follows:

Until January 2003, Envoy s principal executive offices consisted of a five-story office building of approximately 35,000 square feet located at 26-28 Duncan Street, Toronto, Ontario, Canada. In January 2003, Envoy exited the Duncan Street facility after negotiating a release of the term of the lease extension. Envoy has no further obligation to the landlord beyond February 1, 2003.

Envoy has additional office space consisting of a four-story office building of approximately 20,000 square foot located at 172 John Street, Toronto, Ontario. Envoy s principal executive offices are now located at John Street. In addition Watt IDG and John Street Inc. are also located in these premises. These premises have been leased pursuant to a lease with a term which commenced on July 1, 1999 and expires in June 2004, and a current annual rent of $135,000 Cdn. with rent increases each year of the lease term. The lease may be renewed by Envoy on six months prior written notice for three further terms of two years for the first option and five years for the second and third options at specified increased rents for each year of the renewal terms. Notice has been given for the first option term. In connection with the lease negotiation, the landlord advanced to Envoy $750,000 Cdn. as a loan, with an interest rate of 3.5% per annum to be repaid over 10 years. The leasehold improvements involved

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modernization of the facilities and other modifications expected to benefit both Envoy and the landlord. The principal balance of this loan at September 30, 2002 was $553,992 Cdn.

The offices of Envoy s wholly-owned subsidiary Devlin were located at 185 Fredrick Street, Ground 100, Toronto, Ontario, Canada. The premises are leased pursuant to a lease with a current annual rent of $82,138 Cdn. which expired in July 2002. In October 2002 Envoy sold the assets of Devlin to management of the subsidiary. The new company formed to acquire Devlin has been assigned all future obligations for all leases formerly held by Devlin.

The executive offices of Envoy s wholly-owned subsidiary, Hampel Stefanides, are located on the 11th floor at 111 Fifth Avenue, New York, New York. The offices consist of approximately 18,000 square feet of office space leased pursuant to a lease (the HSI Lease) that expires in May 2011. Annual rent is approximately US$324,000 until June 2004, when the annual rent increases to US$846,000, with annual increases each year of the lease term. Envoy has provided the landlord with a guarantee of Hampel Stefanides obligation under the lease in the event that Hampel Stefanides is unable to honour its lease commitments. Envoy maintains a $250,000 U.S. letter of credit in for the landlord as security for the 11th floor lease.

During 2002 Envoy negotiated the exit of approximately 18,000 square feet of office space located on the 12th floor of 111 Fifth Avenue, New York, New York. Under the terms of the lease settlement agreement Envoy agreed to pay the landlord on September 30, 2002 $500,000 (U.S.) cash, issued 250,000 common shares of Envoy at a price of $.50 (U.S.) per share and agreed to make 22 additional monthly payments of $36,638 (U.S.) commencing October 1, 2002. The payments are secured by a letter of credit in the amount of $250,000 (U.S.) in favour of the landlord. The total expense relating to the 12th floor termination agreement has been reflected as restructuring costs in fiscal 2002.

The offices of Envoy s wholly-owned subsidiary, Watt International, consist of an office building of approximately 26,600 square feet located at 300 Bayview, Toronto, Ontario, Canada. The premises are leased pursuant to a lease with a current annual rent of $243,318 Cdn. that expires in March 2005.

The offices of Envoy s wholly-owned subsidiary, Gilchrist, consist of an industrial building of approximately 72,000 square feet located on Ring Road, West Park, Leeds, West Yorkshire, England. The premises are leased pursuant to a lease with a current annual rent of £150,000, which expires in February 2009. Gilchrist has additional office space of approximately 950 square feet located at 12 Great Newport Street, London, England. The premises are leased pursuant to a lease with a current annual rent of £57,000, which expires in August 2005.

Clients

Our customers consist primarily of large multinational businesses and regional accounts. No single client accounted for over 20% of net revenue for the year ended September 30, 2002. Our clients during the year include: Asda, BASF, Cott, Famous Players, Fujifilm, Lexus, Nissan, Safeway Inc., Scott Paper, Sprint Canada, Steelecase USA, Tetra Pak, and Wal-Mart.

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Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion ***should be read in conjunction with, and is qualified in its entirety by, the financial statements of Envoy and notes relating thereto included elsewhere in this Form 20-F. The information contained in this Item# 5 refers*** *to financial statements of Envoy, which are presented in Canadian dollars and are prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP. Reconciliation to U.S. GAAP is set forth in Note 20 to the Notes to the audited Financial Statements of Envoy. Historical results of operations, percentage relationships and any trends that may be inferred therefrom are not necessarily indicative of the operating results of any future period.*

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements contained in the following discussion. Statements in this Form 20-F concerning Envoy s outlook or future economic performance, anticipated profitability, revenues, commissions and fees, expenses or other financial items and statements made with respect to any future events, conditions, performance or other matters are forward looking statements as that term is defined under the U.S. federal securities laws. Forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from those stated in such statements. Such risks, uncertainties and factors include, but are not limited to, (i) the uncertain acceptance of the Internet and Envoy s Internet and other technology, (ii) that Envoy has grown rapidly in the last several years and there can be no assurance that Envoy will continue to be able to grow profitably or manage its growth, (iii) risks associated with acquisitions, (iv) risks associated with competition, (v) that Envoy s quarterly operating results have fluctuated in the past and are expected to fluctuate in the future, and (vi) that the loss of services of certain key individuals could have a material adverse effect on Envoy s business, financial condition or operating results.

Overview

Net Revenue. (Referred to as gross margin in fiscal 1999 and prior) Net revenue represents Envoy s compensation for its agency and non-agency services and is recognized only when collection of such net revenue is probable. Agency services are those that require the Company to incur external media and production costs on behalf of its clients and for which it is entitled to pass through the costs for reimbursement from its clients. The reimbursement of pass-through costs are not included in net revenue. The Company s agency and non-agency projects are typically short-term in nature. Fees earned for non services are recognized either upon the performance of the Company s services when the Company earns a per-diem fee, or in the case of a fixed fee, when the Company s services are substantially complete and accepted by the client. Fees billed to clients in excess of fees recognized as net revenue are classified as deferred revenue. When the Company s compensation for its agency services is based on commissions, net revenue is comprised of: (i) commissions earned from media expenditures, which are recognized at the time the advertising appears or is broadcast, or in respect of on-line advertising, either ratably over the period of time the advertising appears or based on the actual impressions delivered at the contractual rate per impression, depending upon the terms of the arrangement; and (ii) commissions earned on expenditure for the production of advertisements, which are

recognized upon the completion of the Company s services and acceptance by the client, being the time at which the Company has no further substantial obligations with respect thereto. When the Company s compensation for its agency services is fee-based, net revenue is comprised of non-refundable monthly agency fees, which are recognized in the month earned.

Operating Expenses. Salaries and benefits and general and administrative costs represent Envoy s two largest operating expenses. Salaries and benefits expenses include salaries, employee benefits, incentive compensation and other payroll related costs, which are expensed as incurred. General and administrative costs include business development, office costs and professional services. Business development activities include new business pitches to potential clients and existing clients or their respective affiliates with respect to new products and services, client presentations, and Envoy s own advertising and promotion costs, award entry fees and research.

Recognition Policies. In general, Envoy recognizes its compensation for its services as follows. Fees earned for non-agency services are recognized either upon the performance of Envoy s services when Envoy earns a per diem fee or, in the case of a fixed fee, upon substantial completion of Envoy s services and acceptance by the client. Fees earned but not yet billed are included in accounts receivable. Fees billed and collected from clients in excess of fees recognized as net revenue are classified as deferred revenue.

When Envoy s compensation for its agency services are commission based, net revenue is comprised of (i) commissions earned from media expenditures, which are recognized at the time the advertising appears or is broadcast, or in respect of on-line advertising, either ratably over the period of time the advertising appears or based on actual impressions delivered at the contractual rate per impression, depending upon the terms of the arrangement, and (ii) commissions earned on expenditures for the production of advertisements, which are recognized upon the completion of Envoy s services and acceptance by the client, being the time at which Envoy has no further substantial obligations with respect thereto. When Envoy s compensation for its agency services is fee based, net revenue is comprised of non-refundable monthly agency fees which are recognized in the month earned.

Pass-through costs related to production are accrued and recorded in accounts receivable, as unbilled reimbursable costs, at the time the third party suppliers render their services. Pass-through costs related to media are accrued at the time the advertisement appears or is broadcast.

Tax Matters. With respect to Envoy s 2002 fiscal year, Envoy had tax loss carryforwards sufficient to cover its Canadian income tax liabilities and has approximately $9.3 million in loss-carryforwards. Details on income taxes are set forth in Note 13 to the Notes to the audited consolidated Financial Statements of Envoy.

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A. Operating Results

Fiscal Year Ended September 30, 2002 compared to Fiscal Year Ended September 30, 2001

Net revenue decreased by 29%, to $59.1 million in the fiscal year ended September 30, 2002, from $82.8 million in the fiscal year ended September 30, 2001. This decrease resulted from a combination of general economic slowdown in the North American and U.K. marketplace as well as specific slowdown within the advertising and technology markets, particularly in New York. Our revenue from marketing activities decreased $12.0 million from $24.4 million to $12.4 million, the largest portion of this decrease being a decline in revenue in New York of $11.7 million and a further decrease of approximately $300,000 in revenue relating to the Canadian marketing group. Technology revenue decreased $6.5 million from $15.0 million to $8.5 million. Again, part of the reduction in revenue relates to the decline in business at our New York operations. Net revenue from design services decreased $5.2 million from $43.4 to $38.2 million.

Our five largest clients in fiscal 2002 accounted for 48.6% of our net revenue for such period, while our five largest clients in fiscal 2001 accounted for 37.5% of our net revenue for such period. No single client accounted for over 20% of our net revenue in either of such years.

Operating Expenses Salaries and benefits, general and administrative and occupancy costs represent our operating expenses. Salaries and benefits expenses include salaries, employee benefits, incentive compensation, contract labour, and other payroll related costs, which are expensed as incurred. General and administrative costs include business development, office costs, technology and professional services. Occupancy costs represent the costs of leasing and maintaining company premises.

Operating expenses decreased by 19% to $61.5 million for fiscal 2002 from $75.8 million in fiscal 2001. The primary reasons for the decrease in operating expenses were a decrease in salaries and benefits of $8.6 million, or 16%, and a decrease in general and administrative expenses of $5.7 million, or 33%. Occupancy costs decreased slightly from $4.8 million to $4.7 million.

In response to the significant decrease in revenues experienced by the Company in the first six months of the year, management implemented a plan to reduce salary and benefit expenses during the second quarter. As a result of this downsizing, a reduction of approximately $15.2 million in annual salary and benefit expenses was achieved, although all of these savings were not realized during the current year. General and administrative expenses also decreased as a result of both cost saving measures initiated by management and the overall decline in revenues. During fiscal 2002, the Company exited from excess office space in New York and subsequent to year-end the Company exited from excess office space in Toronto.

EBITDA Earnings before interest, taxes, depreciation and amortization before unusual items, restructuring costs and goodwill write-down (Adjusted EBITDA), we have excluded these charges as management believes such costs are non-recurring in nature. In fiscal 2002, we

had a loss of ($2.4) million in Adjusted EBITDA, as defined, compared with income of $7.0 million in fiscal 2001.

Depreciation expense Depreciation expense remained consistent at $2.9 million in fiscal 2002 and fiscal 2001.

Interest expense Interest expense increased from $744,000 to $1.2 million. The increase in interest was largely due to an increase in interest rates year over year on our borrowing under our credit facility. Our effective rate of interest on this debt increased during the year to 8.5% from 4.5%. In addition, interest expense increased because of the issuance of $3.8 million convertible debentures during the year with interest being paid at 10% per annum. The convertible debentures also have a non-cash interest expense resulting from the accounting for the conversion features of the debentures. See Note 11 to the audited consolidated financial statements. Interest expense also includes fees associated with the restructuring of our bank loan facility of $290,000.

Unusual Item During 2002, as a result of changes in the banking loan arrangements, the Company was no longer allowed to fully utilize its $40 million line of credit and repayment terms were accelerated. Accordingly, the remaining unamortized portion of deferred financing charges totaling $751,000 was written off.

Restructuring As mentioned above, in response to a general economic downturn impacting the Company s business, management implemented a restructuring plan during the first half of fiscal 2002. The restructuring involved downsizing its workforce, exiting excess office space and writing off redundant fixed assets. Accordingly, the Company has recorded a restructuring expense of $10.9 million. The restructuring includes a reduction of 156 employees, as well as the abandonment of 18,000 square feet of leased office space in New York City, and 35,000 square feet of leased office space in Toronto. The annual expense savings in salaries, benefits and occupancy costs associated with this restructuring is expected to be approximately $17.2 million.

The above factors resulted in a decrease in our earnings (loss) before income taxes and goodwill amortization and goodwill write-down from $1.5 million to ($18.1) million.

Income taxes In 2002, our effective income tax rate as a percentage of net income before goodwill amortization was (26.7%) compared to our 2001 effective tax rate of 92.2%. The difference relates primarily to the Company having a pretax loss in fiscal 2002, compared to pretax income in fiscal 2001, and certain expenses deducted in the accounts which have no corresponding deduction for income taxes as set forth in Note 13 in our audited consolidated financial statements. These expenses increased in 2002 due to the write-down of goodwill, certain costs incurred in connection with equity financing, and certain compensation expenses, which may not be deductible for tax purposes. See also Note 2(g) in our audited consolidated financial statements. In the current year management has recorded a valuation allowance of approximately $2.4 million in the carrying value of the deferred tax assets. The valuation allowance was considered appropriate because, in the opinion of management it is likely not able to realize the benefits.

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Goodwill amortization Goodwill amortization decreased from $3.0 million to $2.2 million due largely to the write-down of goodwill during the year. Goodwill is largely not deductible for income tax purposes.

Write-down of goodwill During the year the Company performed an assessment of the carrying values of goodwill recorded in connection with its various businesses. The assessment was performed because a number of factors indicated that an impairment had arisen commencing in the period ended March 31, 2002, as well as later in fiscal 2002. Accordingly, the Company recorded a write-down of $37.9 million, which primarily related to the goodwill associated with the businesses of Sage, Promanad and Hampel Stefanides. See Note 8 in the audited consolidated financial statements.

Net Earnings (loss) Primarily as a result of the foregoing factors, net loss increased from ($2.9) million in fiscal 2001 to ($53.4) million in fiscal 2002.

Fiscal Year Ended September 30, 2001 compared to Fiscal Year Ended September 30, 2000

Net revenue Net revenue increased by 36% to $82.8 million in the year ended September 30, 2001 from $60.8 million in the year ended September 30, 2000. This increase occurred as a result of both growth through acquisition and organic growth. Effective January 1, 2001 Envoy acquired the International Design Group. This acquisition was accounted for using purchase accounting and Envoy s results of operations reflect net revenue from the effective date of the acquisition. This acquisition accounted for approximately $2.8 million, or 13% of the overall increase in net revenue. Our organic growth rate for the entire Company in 2001 was 4.8%.

In fiscal 2000, Envoy completed two acquisitions: the acquisition of Gilchrist effective July 1, 2000, and the acquisition of Sage, effective June 1, 2000. Envoy s results of operations for fiscal 2000 include the acquired operations from their respective dates of the acquisitions. As a result of the acquisitions of Gilchrist and Sage, there are an additional nine and eight months of net revenues for these companies, respectively, included in the September 30, 2001 results of operations that were not included in the results of operations for the year ended September 30, 2000. In fiscal 2001, net revenue from Envoy s marketing services represented approximately 30% of net revenue, while design and technology services represented 52% and 18% respectively.

Net revenues from customers located in the United States have continued to grow from $32.6 million in fiscal 2000 to $41.0 million in fiscal 2001, partly due to the acquisition of Sage in late fiscal 2000. Net revenues from the United Kingdom and continental Europe have continued to grow from $4.1 million in 2000 to $20.0 million in 2001 largely due to the acquisition of Gilchrist in late 2000.

Our five largest clients in fiscal 2001 accounted for 37.5% of our net revenue for such period, while our five largest clients in fiscal 2000 accounted for 33.7% of our net revenue for such period. No single client accounted for over 18% of our net revenue in either year.

In fiscal 2001, Envoy earned $7.0 million in EBITDA before unusual items compared with $10.2 million in fiscal 2000. This represents a decrease of 31% year over year. In 2001, our EBITDA profit margin before unusual items was 8.7%, compared to 17.3% in 2000. The decrease is largely due to the general economic slowdown in the last quarter. During the fourth quarter the Company experienced a loss of $3 million dollars. The principal reasons for this in our fourth quarter were the slowdown in our technology business, which experienced a loss of approximately $1.5 million, as well as losses resulting from the closure of Communiqué Advertising in Canada. In addition goodwill amortization for the fourth quarter amounted to approximately $800,000.

Operating Expenses Operating expenses increased by 50% to $75.8 million for fiscal 2001 from $50.6 million for fiscal 2000. As a percentage of net revenue, operating expenses increased to 91% for fiscal 2001 from 83% in fiscal 2000. The primary reasons for the increase in operating expenses were an increase in salaries and benefits of $18.5 million, or 53%; an increase in general and administrative expenses of $4.4 million or, 34%; and an increase in occupancy costs of $2.2 million, or 86%. There were also increases in depreciation of $880,000, or 44%, and of goodwill amortization net of taxes of $1.4 million, or 89%. The increase in salaries and benefits reflects staff of acquired operations plus the additional management and client support personnel employed to handle the continued growth and expanded operations throughout Envoy and related recruiting and hiring costs. As a percentage of net revenue, salaries and benefits increased to 65% for fiscal 2001 compared with 58% in fiscal 2000. The percentage increase in salary expense is a result of a combination of factors including the cost of winding up our Canadian advertising business during the year, an increase in staff to accommodate the growth in our technology business and, the delay in the launch by clients of certain major projects which resulted in underutilized staff at certain times during the year. The additional general and administrative expenses were largely due to expanded business development activities by our existing business divisions as well as new and expanded business development by the acquired businesses. General and administrative expenses remained constant at 21% of net revenue for fiscal 2001 and fiscal 2000. Occupancy costs increased due to additional space required to support our growth in New York, San Francisco and Sweden, and the occupancy costs associated with the acquisition of Gilchrist for an additional three months in fiscal 2001. The additional depreciation charges were due to the depreciation of leasehold costs associated with our acquired operations and additional office space; depreciation of newly purchased capital equipment and depreciation from acquired businesses. As a percentage of revenue, depreciation remained relatively consistent at approximately 3.4% year over year. The increase in interest charge was largely due to additional debt used to funds acquisitions as well as an increase in interest rates year over year on our floating rate debt.

During the year we announced that we terminated our discussions in connection with the proposed acquisition of Leagas Delaney. Generally accepted accounting principles require that all costs associated with the proposed acquisitions and the related equity financing need to be expensed at the date of abandonment. These costs include legal, accounting, consulting and other out-of-pocket expenses, all of which amounted to approximately $1.9 million.

The above factors resulted in a decrease in our earnings before income taxes and goodwill amortization from $7.8 million to $1.5 million.

In 2001, our effective income tax rate as a percentage of net income before goodwill amortization was 92.2% compared to our 2000 effective tax rate of 41.9%. The difference relates primarily to expenses deducted in the accounts which have no corresponding deduction for income taxes as set forth in Note 10 to our audited consolidated financial statements. These expenses increased in 2001 due to certain costs incurred in connection with aborted acquisitions and equity financing, and certain compensation expense both of which may not be deductible for tax purposes. See Note 2(d) and Note 11 in our audited consolidated financial statements.

Goodwill amortization increased from $1.6 million to $3 million due largely to the increased amount of goodwill derived from the acquisitions discussed above as well as additional earn-out payments. Goodwill is largely not deductible for income tax purposes.

Net Income Primarily as a result of the foregoing factors, net income decreased from $2.9 million in fiscal 2000 to ($2.9) million in fiscal 2001.

B. Liquidity and Capital Resources

During the year the Company entered into a Forbearance Agreement with the lenders under its Bank Credit Facility. The Forbearance Agreement requires the Company to make certain monthly principal repayments commencing in December 2002 with the balance due on April 30, 2003. Additional borrowings under the Forbearance Agreement are limited to a letter of credit of £250,000. The ability to make such future principal repayments is dependent on the Company s ability to generate positive cash flow from operations in the future as well as to raise sufficient funds to repay bank borrowings by way of additional debt or equity financing under private placements, sell additional business units or refinance its bank facility with the current lenders or alternative lenders. There can be no assurances that the Company will be successful in obtaining additional debt or equity financing, refinancing its bank facility, or that additional business units can be sold.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operations in the foreseeable future and be able to realize its assets and satisfy its liabilities in the normal course of business. See Note 1 to the audited consolidated financial statements.

Our principal capital requirements have been used to fund acquisitions, including related earnout, capital expenditures and working capital purposes. The Company does not have any substantial earnout payments remaining on its previous acquisitions and the remaining potential liability is contingent on future financial performance.

On April 29, 2002, we issued $1,800,000 in 10% convertible debentures which mature on April 29, 2007. On September 12, 2002, we issued an additional $2,000,000 in 10% convertible debentures which mature on September 12, 2007. See Note 11 of the audited consolidated financial statements. The net proceeds from the sale of the debentures were used for general corporate purposes.

We had a working capital deficit of ($7.7) million and a cash balance of $470,000 at September 30, 2002. At September 30, 2001, working capital was ($430,000) and a cash balance of $21.8 million. Working capital includes the reclassification of bank debt of $9.8 million in fiscal 2002 and $7.8 million in fiscal 2001, as a current liability due to the terms of the Forebearance Agreement entered into with the lenders, which requires full repayments of outstanding balances by April 30, 2003. The Company has a credit facility of £250,000 available until April 30, 2003 to fund working capital requirements. In addition the Company has used excess cash balance to fund its working capital requirements however, such cash balance can vary significantly depending on client spending patterns and collection results. Subsequent to year-end the Company has arranged a $0.5 million loan with an interest rate of 15% per annum, paid monthly. The loan is repayable on June 30, 2003.

Net cash provided by (used in) operating activities before any increase or decrease in non-cash operating working capital was ($7.6) million for the year ended September 30, 2002 and $2.5 million for the year ended September 30, 2001. The decrease in working capital is primarily a result of the decrease in cash due to lower earnings during the year.

Net cash provided by (used in) financing activities was $3.0 million for the year ended September 30, 2002 and ($287,000) for the year ended September 30, 2001. During fiscal 2002, the Company issued $3.8 million convertible debentures. See Note 11 to our audited consolidated financial statements.

Net cash used in investing activities was ($3.7) million for the year ended September 30, 2002 and ($5.4) million for the year ended September 30, 2001. Decrease is a result of fewer expenses relating to acquisitions during the year and a reduction in capital expenditures.

At September 30, 2002 we had restricted cash of $1.8 million ($159,000 at September 30, 2001) representing customer deposits. See Note 4 to our audited consolidated financial statements.

Critical Accounting Policies

The significant accounting policies used by the Corporation in preparing its consolidated financial statements are described in Note 2 to the audited consolidated financial statements and should be read to ensure a proper understanding and evaluation of the estimates and judgements made by management in preparing those financial statements. The corporation s consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principals. The Corporation also prepares a reconciliation to United States generally accepted accounting principals, which is included in Note 20 to the audited consolidated financial statements.

Inherent in the application of some of those policies is the judgement by management as to which of the various methods allowed under generally accepted accounting principals is the most appropriate to apply in the case of the Corporation. As well, management must take appropriate estimates at the time the financial statements are prepared.

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Although all of the policies identified in Note 2 to the audited consolidated financial statements are important in understanding the consolidated financial statements, the policies discussed below are considered by management to be central to understanding the financial statements because of the higher level of measurement uncertainties involved in their application.

Goodwill Annually, the Company assesses the recoverability of the carrying value of its goodwill and the related amortization period. As part of the evaluation, the Company considers several factors, including the operating results and trends, movements in major clients and key client service personnel, changes in client relationships and general economic conditions. Future operating results and above factors could vary materially, and accordingly the value of goodwill could change by material amounts.

Income Taxes The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized at the enacted or substantially enacted tax rate expected to be applicable at the anticipated date of the reversal for all significant temporary differences between the tax and accounting bases of assets and liabilities and for certain tax carryforward items. Future income tax assets and liabilities are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future operating results and future tax rates could vary materially, and accordingly the value of income tax assets and liabilities could change by material amounts.

Impact of Recently Issued Canadian Accounting Standards

Business Combinations

The Company adopted the new provisions of the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1581, Business Combinations . All business combinations are accounted for using the purchase method of accounting. The value of the shares issued in a business combination are measured using the average share price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced. Effective July 1, 2001, goodwill acquired in business combinations completed after June 30, 2001 was not amortized and is subject to impairment testing and intangible assets that meet specific criteria are recognized and reported apart from goodwill.

Earnings Per Share

The Company adopted the new provisions of the CICA Handbook Section 3500, Earnings per Share . Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental issuable upon the exercise of stock options using the treasury method. Previously, the Company calculated fully diluted earnings per share using the imputed earnings method. The change in accounting policy has been applied retroactively and the diluted earnings per share figures presented for the comparative period have been restated.

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Commitments and Contractual Commitments

Set out below is a summary of the amounts due and committed under contractual cash obligations at September 30, 2002:

	Total	Due in 1 year or less	Due between years 2 and 3	Due between years 4 and 5	Due after 5 years
Bank credit facility and other debt	$11,919,313	$10,589,114	$ 743,731	$ 308,499	$277,969
Operating leases	24,543,358	4,402,963	7,877,681	12,185,501	77,213
Debentures	3,800,000	0	0	3,800,000*	0
Total contractual cash obligations	$40,262,671	$14,992,077	$8,621,412	$16,294,000	$355,182

(a) ** The holders of the convertible debentures have the right to require the Company to purchase all or a portion of their debentures in fiscal 2004.*

(b) *See Notes 10, and 16 to the audited consolidated financial statements.*

Other Commitments

Earn-out payments for acquisitions Additional consideration may be paid with respect to Commordore over a two-year period if certain milestones are achieved. The earn-out amounts earned will be satisfied to a maximum of $475,000 in cash. See Note 3(a) of the audited consolidated financial statements. Additional consideration may be paid with respect to the acquisition of International Design Group, over a three-year period if certain performance milestones are achieved. The earn-out amounts earned will be satisfied by a maximum of $2,000,000 in cash and a maximum of 154,321 common shares of the Company. See Note 3(b) of the audited consolidated financial statements.

The Company has letters of credit outstanding of Cdn. $150,000, U.S. $500,000 and £250,000 all of which expire on April 30, 2003.

The shares held by the minority shareholders of John Street Inc., representing a 30% interest, are mandatorily redeemable by the Company at September 30, 2004 for cash consideration and as such represents a financial liability of the Company. No amount has been accrued in the financial statements as the purchase price will be determined and paid over a three-year period based on certain performance milestones.

C. Research and Development, Patents and Licenses, etc.

Not applicable

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D. Trend Information

Not applicable

Item 6. DIRECTORS AND SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information regarding the directors and senior managers of Envoy as of January 31, 2003. Each director is elected at the annual meeting of shareholders to serve until the next annual meeting or until a successor is elected or appointed.

Name	Age	Positions Held with Envoy
Geoffrey B. Genovese	48	Chairman, President and Chief Executive Officer and Director
John H. Bailey(2)	58	Secretary and Director
David Hull(1),(2)	46	Director
Hugh Aird(1),(2)	49	Director
David Parkes(1)	56	Director
Donald G. Watt	67	Director
J. Joseph Leeder	48	Vice President and Chief Financial Officer

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

The principal occupations and positions for the past five years and, in certain cases, prior years of the directors and executive officers of Envoy are as follows:

Geoffrey B. Genovese. Mr. Genovese founded The Incentive Design Company Ltd., a business and marketing communications company, in 1981. Envoy acquired IDC in July 1991. Mr. Genovese currently serves as Chairman, President and Chief Executive Officer of Envoy Communications Group Inc. and Chief Executive Officer of Watt International Inc. Mr. Genovese served as President and Chief Executive Officer of Envoy from October 1993 to September 2001. Mr. Genovese has been a Director of Envoy since July 1991.

John H. Bailey. Mr. Bailey is a barrister and a solicitor who has been in private practice since 1973. Mr. Bailey earned a Bachelor of Commerce and a Bachelor of Laws degree from the University of Toronto and a Master of Laws degree from York University. Mr. Bailey has been a Director of Envoy since April 1994 and Secretary of Envoy since August 1997.

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David Hull. Mr. Hull has been the President of Hull Life Insurance Agencies Inc. since May 1991. Hull Life Insurance Agencies Inc. specializes in estate planning and life and disability insurance. Prior thereto, Mr. Hull served as Executive Vice President of Hull Life Insurance Agencies Ltd. and Thomas I. Hull Insurance Ltd., members of The Hull Group of Companies. Mr. Hull has been a Director of Envoy since January 1995.

Hugh Aird. Mr. Aird has been Vice President Business Development of Mulvihill Capital Management, a financial consulting company, since November 2001. Mr. Aird was Chairman and Chief Executive Officer of DRIA Capital Inc., a financial consulting company, from November 1998 to November 2001**.** From February 1995 to November 1998, Mr. Aird was the Vice-Chairman and a Director of Merrill Lynch Canada Inc. (formerly Midland Walwyn Capital Inc.). From February 1986 to 1996, Mr. Aird was President and Chief Executive Officer of Trilon Securities Corporation, a securities firm. Mr. Aird has been a Director of Envoy since August 1997. Mr. Aird has been a Director of Invesprint Corporation, a label and packaging material manufacturer listed on the TSE, since March 1996 and of Digital Processing Systems Inc., a designer, manufacturer and marketer of electronic hardware and software listed on the TSE, since May 1996.

David Parkes. Mr. Parkes founded David Parkes & Associates in September 2001, which is an Executive Consulting Service firm. From November 1999 to August 2001, Mr. Parkes was President and CEO of Look Communications Inc. From September 1997 to November 1999, Mr. Parkes was President and CEO of TeleSpectrum Canada Inc. From January 1995 to June 1997, Mr. Parkes was President and CEO of Sprint Canada Inc. Mr. Parkes has been a director of Envoy since October 2002.

Donald G. Watt. Mr. Watt founded Watt Design in 1966 and served as its President from its inception until 1992 when it was acquired by Cott Corporation, a supplier of retail branded beverages listed on the TSE and Nasdaq. Mr. Watt served as Watt Design s Chairman from 1992 until the acquisition of substantially all of Watt Design s assets by Envoy. In addition, during the period from 1992 to 1995, Mr. Watt served as the President of Retail Brands Corporation, the marketing arm of Cott Corporation. Mr. Watt has been Chairman of Watt International since its acquisition by Envoy. Mr. Watt became a director of Envoy in June 1999. Mr. Watt is also a Director of Cott Corporation, The Forzani Group Limited, a retailer of sporting goods company listed on the TSE and Montreal Stock Exchange, Indigo Books & Music Inc., a retailer of books and music, GTR Group Inc., a supplier of republished and previously played video games listed on the TSE, Aastra Technologies Limited, a manufacturer of telecommunications equipment listed on the TSE and Alberta Stock Exchange, and Partyco Holdings Ltd., a retailer of party supplies listed on the Alberta Stock Exchange.

J. Joseph Leeder. Mr. Leeder joined Envoy in November 1998 as Vice President and Chief Financial Officer. Prior to joining Envoy, Mr. Leeder was a partner of KPMG LLP in Canada, an accounting firm, and an executive vice president of KPMG Corporate Finance Inc., a subsidiary of KPMG LLP.

The Ontario Business Corporations Act requires that a majority of Envoy s directors be Canadian residents. There are no arrangements or understandings between any director or executive officer of Envoy pursuant to which he was selected as such.

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B. Compensation

The following table sets forth in Canadian dollars all compensation for the fiscal year ended September 30, 2002 paid to the Chief Executive Officer of Envoy and the four other most highly compensated officers who served as executive officers of the Company (the Named Executive Officers):

	Annual Compensation			Long Term Compensation			
				Awards		Payouts	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation($)	Securities Under Option/SARs Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	All Other Compensation ($)
Geoffrey B. Genovese, Chairman, President and Chief Executive Officer	513,333		150,000(1)	500,000			
J. Joseph Leeder, Vice President, and Chief Financial Officer	280,000			400,000			
Arthur Fleischman, President, John Street Inc.	225,000	80,000					
Larry Hampel, Executive Vice President, Hampel Stefanides, Inc.	350,000(2)						
Dean Stefanides, Executive Vice President, Hampel Stefanides, Inc.	350,000(2)						

(1) The amount was paid to a corporation related to Mr. Genovese as an annual management fee.

(2) The compensation of Messrs. Hampel and Stefanides is stated and paid in United States dollars.

The following table sets forth options granted under the Stock Option Plan to the Named Executive Officers of the Company in the most recently completed fiscal year:

Name	Shares Under Options Granted (#)	Percentage of Total Options Granted to Employees in Financial Year	Date of Grant	Exercise Price ($/Security)	Market Value of Shares Underlying Options on Date of Grant ($/Security)	Expiry Date
Geoffrey B. Genovese	500,000[1]	29.09%	May 30, 2002	$ 0.61	$ 0.61	May 29, 2007
J. Joseph Leeder	400,000[2]	23.27%	May 30, 2002	$ 0.61	$ 0.61	May 29, 2007

The following table sets forth options exercised under the Stock Option Plan to the Named Executive Officers of the Company in the most recently completed fiscal year and the value of unexercised options held by them as at the most recent fiscal year:

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Stock Options Exercised During 2002 Fiscal Year

Name	Number of Shares Acquired on Exercise	Aggregate Value Realized ($)	Unexercised Options at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the Money Options at FY-End ($) Exercisable/ Unexercisable[1]
Geoffrey B. Genovese	Nil	Nil	950,000/nil	0/0
Joseph Leeder	Nil	Nil	333,333/316,667	0/0
Arthur Fleischman	Nil	Nil	50,000/100,000	0/0
Larry Hampel	Nil	Nil	75,000/25,000	0/0
Dean Stefanides	Nil	Nil	75,000/25,000	0/0

(1) The closing stock price of the Common Shares of the Company on the Toronto Stock Exchange on September 30, 2002 was $0.21.

Subsequent to September 30, 2002, the President of the Corporation, Geoffrey B. Genovese, elected to cancel his stock options to purchase 950,000 Common Shares, being all of the options to purchase Common Shares granted to Mr. Genovese under the Stock Option Plan. The cancellation of these stock options resulted in an additional 950,000 Common Shares being available for grant, without increasing the maximum number of Common Shares reserved for issuance upon exercise of options under the Stock Option Plan.

Envoy does not provide any pension, retirement plan or other remuneration for its directors or executive officers that constitutes an expense to Envoy, nor are there any plans or other arrangements in respect of compensation received or that may be received by executive officers in Envoy s most recently completed or current financial year to compensate such officers in the event of the termination of employment or a change in control of Envoy.

Certain directors, who are not officers of the Company or any of its affiliations, are compensated for their services as directors and members of a committee through a combination of annual and meeting attendance fees. Each of Messrs. Aird, and Parkes are entitled to receive an annual director s fee of $25,000. In addition, each of Messrs. Aird, Parkes and Hull are entitled to receive a fee of $500 for each Board of Directors meeting and $1,000 for each Committee meeting attended. No compensation was paid to the other directors for their services as directors or members of committees. Directors are also entitled to participate in the Company s Stock Option Plan.

Employment Contracts and Termination Agreements

The Company s wholly-owned subsidiary, Hampel and Sage have entered into employment contracts with the Named Executive Officers.

Geoffrey B. Genovese has agreed to act as the Corporation s Chairman, President and Chief Executive Officer at an annual base salary of $550,000, together with a discretionary bonus based on the achievement of agreed upon criteria established from time to time by the Compensation Committee. Effective February 1, 2002 Mr. Genovese agreed to a 10% reduction

in his base salary. This agreement provides for a severance payment equivalent to $300,000 plus an amount equal to two times the total remuneration and other compensation paid to Mr. Genovese and his management company during the 12 month period preceding termination, if Mr. Genovese s employment is terminated, without cause, by the Corporation. An annual fee of $150,000 is also payable to Mr. Genovese s management company pursuant to a management agreement with the Corporation. Effective February 1, 2002 Mr. Genovese agreed to a 10% reduction in this annual fee. The management agreement has a fixed term ending on September 30, 2003. Mr. Genovese s employment contracts are reviewed and amended periodically.

Joseph Leeder has agreed to act as the Corporation s Vice President and Chief Financial Officer at an annual base salary of $300,000, together with a discretionary bonus based on the achievement of agreed upon criteria established from time to time by the Chief Executive Officer. Mr. Leeder also receives an annual car allowance of $9,600. Effective February 1, 2002 Mr. Leeder has agreed to a 10% reduction in his base salary. This agreement provides for a severance payment equivalent to his base salary for a period of three months for each year of employment (to a maximum of six months), if Mr. Leeder s employment is terminated, without cause, by the Corporation, and for a period of twelve months, if Mr. Leeder s employment is terminated, without cause, by the Corporation within six months of a change of control of the Corporation. Mr. Leeder s employment contract are reviewed and amended periodically

Arthur Fleischmann has agreed to act as the President of John St. at an annual base salary of $225,000, together with an annual cash bonus based on the performance of John St. This agreement provides for a severance payment equivalent to his base salary and benefits for a period of ten months, if his employment is terminated by the Corporation.

Larry Hampel has agreed to act as an Executive Vice President of Hampel Stefanides at an annual base salary of US$350,000. This agreement had a fixed term of 4 years, ending on September 30, 2002, and has been informally extended pending the negotiation and signing of a new agreement between Larry Hampel and Hampel Stefanides.

Dean Stefanides has agreed to act as an Executive Vice President of Hampel Stefanides at an annual base salary of US$350,000. This agreement had a fixed term of 4 years, ending on September 30, 2002, and has been informally extended pending the negotiation and signing of a new agreement between Dean Stefanides and Hampel Stefanides.

Compensation of Directors

There are no standard or other arrangements under which directors of Envoy who are also officers of Envoy or otherwise have a business relationship with Envoy were compensated by Envoy during the most recently completed fiscal year for acting in their capacity as directors. Outside directors, who have no business relationship with Envoy other than service as a director, are entitled to receive an annual retainer for service as a director and fees for attendance at meetings of the Board of Directors and committees thereof. Except as set forth below, there are no arrangements under which directors of Envoy were compensated by Envoy during the most recently completed fiscal year for services rendered as consultants or experts. In the fiscal year ended September 30, 2002, Envoy paid approximately $266,000 Cdn. to John H. Bailey, Barrister & Solicitor, for legal services provided to Envoy.

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Directors and Officers Liability Insurance

The Corporation maintains liability insurance for the benefit of the directors and officers of the Corporation and its subsidiaries against liability incurred by them in their respective capacities. The current annual policy limit is $10,000,000. Under the policy, individual directors and officers are reimbursed for losses incurred in their capacities as such, subject to a deductible of $250,000 for securities claims suits arising in the United States and $50,000 for all other claims. The deductible is the responsibility of the Corporation. The annual premium of $135,000 was paid by the Corporation.

C. Board Practices

CORPORATE GOVERNANCE

The following describes the Corporation s corporate governance practices.

Mandate of the Board

The Board of Directors (the Board) holds meetings whenever appropriate to oversee the conduct of the Corporation s business and monitor and evaluate the day-to-day management of the Corporation. With respect to risk management activities, the Board is presented, at each meeting, reports on operations, financial status, material contracts and litigation.

In addition to the Board s statutory responsibilities under the Business Corporations Act of Ontario, the Board s stewardship responsibilities include the following: (a) assessing the principal risks arising from or incidental to the business activities of the Corporation; (b) appointing all senior executives of the Corporation and, through the Compensation Committee of the Board, developing and implementing the executive compensation policies and reviewing the performance of senior executives with reference to the Corporation s policies, stated budget and other objectives; (c) overseeing the Corporation s policies regarding public communications, investor relations and shareholder communications; and (d) monitoring and assessing, through the Audit Committee of the Board, the scope, implementation and integrity of the Corporation s internal information, audit and control systems.

The Corporation has delegated the responsibility for monitoring the effectiveness of the Corporation s international information systems to the Audit Committee of the Board. The Audit Committee is also responsible for reviewing and appraising the soundness, adequacy and application of financial and other operating controls, determining the extent of compliance with established policies, plans and procedures and ascertaining the reliability and timeliness of management data developed within the organization.

Composition of the Board

The articles of the Corporation provide that there shall be a Board of not less than 3 or more than 10 directors. There are currently six directors of the Corporation, two of whom are inside or related directors and three of whom are outside and unrelated directors, and one of whom is an outside but related director (as such terms are defined in the Toronto Stock Exchange Report). Geoffrey Genovese, the Chairman, President and Chief Executive

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Officer of the Corporation and Donald Watt, the Chairman of the Corporation s wholly owned subsidiary, Watt International Inc., are the inside and related directors. Hugh Aird, David Hull and David Parkes are the outside and unrelated directors of the Corporation. John H. Bailey is an outside director but, as counsel who provides ongoing legal services to the Corporation, may be considered to be a related director. The Board intends to periodically examine its size and constitution to ensure responsible corporate governance and effective corporate management.

Governing Committees

The directors have established the Audit Committee and the Compensation Committee to focus resources and expertise in certain areas of the Board s mandate.

Audit Committee

The Board has delegated to the Audit Committee of the Board responsibility for ensuring management has designed and implemented an effective management system and for reviewing internal information, audit, control and management systems. The Audit Committee is comprised of three directors, Hugh Aird, David Hull and David Parkes. In accordance with the TSX Report recommendations, all members of the Audit Committee are outside and unrelated directors of the Corporation.

The Audit Committee is responsible for reviewing the Corporation s annual consolidated financial statements and reporting to the Board in connection therewith. The Audit Committee is also responsible for monitoring the Corporation s internal controls and information gathering systems and dealing with the Corporation s external auditors. On February 22, 2000, the Audit Committee adopted a formal written audit committee charter, which specifies the auditor s accountability to the Board and the authority and responsibilities of the Audit Committee.

Compensation Committee

The Compensation Committee is comprised of three directors, David Hull, Hugh Aird and John H. Bailey, all of whom are outside directors. The Compensation Committee reviews, administers and monitors the Corporation s executive compensation plans, policies and programs, including the compensation of all executive officers and, if requested by the President, reviews the compensation of any other officer or senior employee.

Corporate Governance Committee

The Board has not, as yet, established a Corporate Governance Committee as recommended in the Toronto Stock Exchange Report and believes that the matters ordinarily considered by such a committee are effectively administered by the Board s outside and unrelated directors. Although, at present, the Board has determined this to be the most practical approach to responsible corporate governance, the Board will continue to evaluate this determination as circumstances dictate.

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Expectations of the Board

The Board expects management of the Corporation to report to the Board in a comprehensive, accurate and timely fashion on the business and affairs of the Corporation generally and on specific matters that it considers to have material consequences for the Corporation and its shareholders. Management is expected to continually develop and review the Corporation s strategic plan to make the decisions necessary to give effect to the plan; to adhere to the Corporations operational policies; and to monitor the Corporation s financial performance in comparison to the annual budget, with the ultimate goal of enhancing shareholder value.

Shareholder Communication

The objective of the Corporation s shareholder communication policy is to ensure open and timely exchange of information relating to the Corporation s business, affairs and performance, subject to the requirements of applicable securities legislation and other statutory and contractual obligations limiting the disclosure of such information. Information material to the Corporation s business is released through news wire services, the general media, telephone conferences and shareholder mailings, thereby ensuring timely dissemination. Additionally, individual queries, comments or suggestions can be made at any time directly to the Corporation s secretarial department located at its head office.

D. Employees

As at January 31, 2003, Envoy has 175 full time employees based in Toronto, Canada, 31 based in the United States, and 133 based in the United Kingdom and Continental Europe. Of this total, 29 employees were engaged in marketing, and 310 in design.

As at January 31, 2002, Envoy had 292 full time employees based in Toronto, Canada, 60 based in the United States, and 158 based in the United Kingdom and Continental Europe. Of this total, 75 employees were engaged in marketing, 369 in design, and 73 in technology.

As of January 31, 2001, Envoy had 354 full time employees based in Toronto, Canada, 54 based in the United States and 151 based in the United Kingdom and Continental Europe. Of this total 115 employees were engaged in advertising/marketing, 344 in design, and 100 in technology.

As of January 31, 2000, Envoy had 250 full time employees based in Toronto, Canada, and 56 based in the United States. Of this total 143 employees were engaged in advertising/marketing 149 in design, and 14 in technology.

E. Share Ownership

As of January 31, 2003, the options and other rights to purchase common shares of Envoy consisted of stock options to purchase 3,709,750 common shares, options on convertible debentures to purchase 8,382,353 common shares, warrants on convertible debentures to

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purchase 7,882,353 common shares and other contingent rights to receive up to 154,321 common shares, all as described below.

Options

Stock Option Plan. Envoy has established a stock option plan (the Stock Option Plan), pursuant to which options to purchase common shares and stock appreciation rights (SARs) may be granted to directors, officers, employees or certain consultants to Envoy, as determined by the Board of Directors, at a price to be fixed by the directors, subject to limitations imposed by the TSE or any other Canadian stock exchange on which the common shares may become listed for trading and any other regulatory authority having jurisdiction in such matters. The common shares subject to each option shall become purchasable at such time or times as may be determined by the directors. SARs may only be granted in conjunction with an option and, when exercised, entitle the holder to receive an amount equal in value to the excess of the market value on the date of exercise of the common shares over the option price of the related option. The excess amount is payable in common shares having a market value equal to such excess. Options are non-assignable and non-transferable by the option-holder and may only be exercised during the option-holder s lifetime by the option-holder. SARs are non-transferable and terminate when the related option terminates.

The maximum number of common shares reserved for issuance upon exercise of options under the Stock Option Plan is 4,000,000. As at January 31, 2003, options to purchase 3,709,750 common shares and no SARs are outstanding under the Stock Option Plan. The aggregate number of common shares issued to any one Insider (as such term is defined in the Stock Option Plan) and to all Insiders as a group under the Stock Option Plan and any other share compensation arrangement within a one year period may not exceed 5% and 10%, respectively, of the issued and outstanding common shares immediately prior to the issuance in question. No optionee may hold options to purchase more than 5% of the outstanding common shares of Envoy. The option price per share shall not be less than the closing price of the common shares of Envoy on the TSE on the last trading day prior to the option grant. Envoy is required to enter into a written agreement with each option-holder under the Stock Option Plan, which agreement shall set out the option price and terms and conditions upon which such option may be exercised, in accordance with the provisions of the Stock Option Plan.

The following table describes the options to acquire common shares that are outstanding pursuant to the Stock Option Plan or otherwise as of January 31, 2003:

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Class of Optionee	Number of Common Shares Under Options Granted	Exercise Price	Date of Expiry
J. Joseph Leeder	100,000	$ 4.10	December 16, 2003
J. Joseph Leeder	100,000	$ 6.20	August 10, 2004
J. Joseph Leeder	50,000	$ 7.40	March 30, 2005
J. Joseph Leeder	400,000	$ 0.61	May 29, 2007
J. Joseph Leeder	150,000	$ 0.25	October 27, 2007
Arthur Fleischman	150,000	$ 3.05	June 27, 2006
Arthur Fleischman	100,000	$ 0.25	