



NETGRAPHE INC.

Consolidated Financial Statements

**For the three and six month period
ended June 29, 2002 and June 30, 2001**

**Second Quarter
ended June 29, 2002**

Consolidated Earnings

(unaudited)

	For the period of three months ended		For the period of six months ended	
	June 29 2002	June 30 2001	June 29 2002	June 30 2001
	\$	\$	\$	\$
Revenue				
Internet services	4 574 146	4 195 166	9 701 330	8 944 395
Consulting services	2 170 263	2 073 102	4 413 529	4 099 333
	<u>6 744 409</u>	<u>6 268 268</u>	<u>14 114 859</u>	<u>13 043 728</u>
Operating, selling and administrative expenses	<u>7 631 741</u>	<u>11 913 459</u>	<u>16 785 707</u>	<u>24 114 116</u>
Operating loss before financial charges, depreciation and unusual items	<u>(887 332)</u>	<u>(5 645 191)</u>	<u>(2 670 848)</u>	<u>(11 070 388)</u>
Financial charges	134 792	1 107 521	272 934	2 402 208
Depreciation	1 216 766	1 876 233	2 442 763	3 346 859
Unusual items (note 4)	-	4 387 567	1 450 000	4 387 567
	<u>1 351 558</u>	<u>7 371 321</u>	<u>4 165 697</u>	<u>10 136 634</u>
Loss before income taxes and amortization of goodwill	<u>(2 238 890)</u>	<u>(13 016 512)</u>	<u>(6 836 545)</u>	<u>(21 207 022)</u>
Income taxes	35 827	269 223	75 163	281 369
Loss before amortization of goodwill	<u>(2 274 717)</u>	<u>(13 285 735)</u>	<u>(6 911 708)</u>	<u>(21 488 391)</u>
Amortization of goodwill	-	3 296 971	-	7 646 924
Net loss	<u>(2 274 717)</u>	<u>(16 582 706)</u>	<u>(6 911 708)</u>	<u>(29 135 315)</u>
Loss per share (basic and diluted)	<u>(0,01)</u>	<u>(0,07)</u>	<u>(0,03)</u>	<u>(0,12)</u>
Weighted average number of common shares outstanding	<u>222 604 555</u>	<u>248 110 738</u>	<u>222 604 555</u>	<u>248 110 738</u>

Consolidated Deficit

(unaudited)

	For the period of three months ended		For the period of six months ended	
	June 29 2002	June 30 2001	June 29 2002	June 30 2001
	(restated note 3) \$	\$	(restated note 3) \$	\$
Balance, beginning of period				
As previously reported	148 699 429	81 596 616	143 904 820	68 871 366
Restatement due to a change in accounting policy (note 3)	<u>34 001 000</u>	-	<u>34 001 000</u>	-
As restated	<u>182 700 429</u>	<u>81 596 616</u>	<u>177 905 820</u>	<u>68 871 366</u>
Net loss	2 274 717	16 582 706	6 911 708	29 135 315
Increase in equity component of convertible debenture	165 499	135 704	323 117	308 345
	<u>2 440 216</u>	<u>16 718 410</u>	<u>7 234 825</u>	<u>29 443 660</u>
Balance, end of period	<u>185 140 645</u>	<u>98 315 026</u>	<u>185 140 645</u>	<u>98 315 026</u>

Consolidated Cash Flows

(unaudited)

	Three months ended		Six months ended	
	June 29 2002	June 30 2001	June 29 2002	June 30 2001
OPERATING ACTIVITIES				
Net loss	(2 274 717)	(16 582 706)	(6 911 708)	(29 135 315)
Non-cash items				
Depreciation	1 216 766	1 876 233	2 442 763	3 346 859
Write-off of fixed assets	24 902	14 991	230 136	14 991
Amortization of goodwill	-	3 296 971	-	7 646 924
Cash flows from current operations	(1 033 049)	(11 394 511)	(4 238 809)	(18 126 541)
Changes in non-cash working capital items				
Accounts receivable	2 818 157	(8 842 125)	5 256 819	(8 796 461)
Work in progress and prepaid expenses	(269 999)	(245 896)	(170 443)	248 529
Accounts payable and accrued liabilities	(232 911)	17 965 809	494 726	1 607 639
Deferred revenues	33 708	374 056	(27 369)	354 573
Cash flows from operating activities	1 315 906	(2 142 667)	1 314 924	(24 712 261)
INVESTING ACTIVITIES				
Acquisition of fixed assets	-	(203 263)	-	(527 219)
Short-term investment	-	6 650 000	27 300	6 650 000
Cash flows from investing activities	-	6 446 737	27 300	6 122 781
FINANCING ACTIVITIES				
Bank loan	-	-	(80 000)	-
Due to companies under common control	(66 200)	(95 452 520)	(129 250)	(73 443 229)
Issuance of capital stock	-	85 049 619	-	85 198 474
Cash flows from financing activities	(66 200)	(10 402 901)	(209 250)	11 755 245
Net increase in cash and cash equivalents	1 249 706	(6 098 831)	1 132 974	(6 834 235)
Cash and cash equivalents, beginning of period	1 276 125	8 541 239	1 392 856	9 276 644
Cash and cash equivalents, end of period	2 525 831	2 442 388	2 525 831	2 442 388

Consolidated Balance Sheets

	(unaudited)	(audited)
	June 29 2002	December 31 2001
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	2 525 831	1 392 856
Short term investment	1 000 000	1 027 300
Accounts receivable	6 550 294	11 807 113
Work in progress and prepaid expenses	704 093	533 650
	<u>10 780 217</u>	<u>14 760 919</u>
Fixed assets	2 938 667	5 611 566
Goodwill (note 3)	33 095 105	67 096 105
	<u>46 813 989</u>	<u>87 468 590</u>
LIABILITIES		
Current liabilities		
Bank Loan	-	80 000
Accounts payable and accrued liabilities	15 086 710	14 591 984
Deferred revenues	1 135 344	1 162 713
Installments on equity component of convertible debenture	299 596	271 741
	<u>16 521 650</u>	<u>16 106 438</u>
Liability component of convertible debenture	2 310 211	2 467 316
SHAREHOLDERS' EQUITY		
Equity component of convertible debenture	7 987 529	7 664 412
Capital stock	201 344 578	201 344 578
Contributed surplus	3 790 666	3 790 666
Deficit	(185 140 645)	(143 904 820)
	<u>27 982 128</u>	<u>68 894 836</u>
	<u>46 813 989</u>	<u>87 468 590</u>

Netgraphe Inc.

Notes to Consolidated Financial Statements

For the three-month period and the six month period ended June 30, 2002 and June 29, 2001
(Unaudited)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

Netgraphe Inc. (Netgraphe or the Company) is an integrated company offering e-commerce, information, communication and information technology consulting services. Netgraphe owns the CANOE network which offers services to over 3.6 million on-line users each month (source: MédiaMétrix) and includes the Canoe.ca, Canoe.qc.ca, InfiniT.com, La Toile du Québec, Webfin.com, Multimediam.com, and Megagiciel.com sites, local FYI urban sites and, internationally, the Micanoa.com site (Spain). Netgraphe also offers on-line e-commerce services in the area of employment, with Jobboom.com, automobile, with Autonet.ca, meetings, with ReseauContact.com, on-line buying, with Shop.canoe.ca and classified ads, with ClasseesExtra.ca. Through its subsidiary, Progisia Informatique inc., Netgraphe also offers information technology consulting services in e-commerce, outsourcing, integration and computer security. Netgraphe is listed on the Toronto Stock Exchange under the symbol www.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles. The same accounting policies as described in the Company's latest annual Financial Statements have been used, with the exception of the changes in accounting policies and the new accounting policy described in note 3. However, these consolidated financial statements do not include all disclosures required under Canadian generally accepted accounting principles and accordingly should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual Financial Statements. The results of operations for the interim periods should not necessarily be considered indicative of full year results due to the seasonality of certain operations.

3. ACCOUNTING POLICIES

Change in accounting policies

The Company has changed certain accounting policies to comply with new standards of the Canadian Institute of Chartered Accountants ("CICA").

a) Business combinations, goodwill and other intangible assets

In August 2001, the CICA issued Handbook Section 3062, *Goodwill and Other Intangible Assets*. For business combinations consummated on or before June 30, 2001, the Company adopted in 2002 the new recommendations of the *CICA Handbook*. Under those new recommendations, goodwill and intangible assets with indefinite useful lives are not amortized and other identified intangible assets are amortized. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change.

Netgraphe Inc.

Notes to Consolidated Financial Statements

For the three-month period and the six month period ended June 30, 2002 and June 29, 2001
(Unaudited)

3. ACCOUNTING POLICIES (continued)

Change in accounting policies (continued)

a) Business combinations, goodwill and other intangible assets (continued)

Under Section 3062, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the income statement before extraordinary items and discontinued operations.

Intangible assets acquired in business combinations and intangible assets acquired individually or with a group of other assets, which have indefinite lives are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. Intangible assets with definite useful lives are amortized over their useful life.

On June 30, 2002, the Company completed the first impairment step for each of its reporting unit, accordingly with the new requirements of Section 3062. Within the end of 2002, the Company will complete the second impairment step for the reporting unit having, as at January 1st, 2002, a carrying amount exceeding its fair value.

In accordance with the transitional provision of Section 3062, an impairment loss as a result of applying the recommendations for the first time, is recognized as the effect of a change in accounting policy and charged to opening retained earnings, without restatement of prior periods. On June 30, 2002, since the Company is able to approximate of the impairment loss for each of its reporting unit, these consolidate financial statements reflect the conclusion of the first impairment step. This revision had the effect of reducing goodwill by \$34 001 000 .

Netgraphe Inc.

Notes to Consolidated Financial Statements

For the three-month period and the six month period ended June 30, 2002 and June 29, 2001
(Unaudited)

b) Stock-based compensation

Since January 1st 2002, the Company adopted the new recommendations of the *CICA Handbook* concerning the accounting for all stock-based compensation. The recommendations are applied prospectively to all compensation to employees which are direct awards of stock, which calls for settlement in cash or other assets, at the discretion of the employee or which are rights of added-value shares, and that have been consented to starting January 1st 2002.; However, these recommendations do not apply to compensations that had been consented to prior to January 1st, 2002 and that call for settlement in cash or other assets, at the discretion of the employee or which are rights of added-value shares. In the case of such compensation, the new recommendations are applied retroactively without restatement of prior periods. The new recommendations have no effect on the balance of retained earnings as at January 1st, 2002.

4. RESERVE FOR RESTRUCTURING OF OPERATIONS

During the six-month period ended June 30, 2002, the Internet/Portals segment recorded a reserve for restructuring of operations for an amount of \$1 450 000. The reserve is in connection with the reorganization of the business segment. This reserve included costs connected to severance pay to employees and asset write-off. No additional reserve for restructuring were accounted for during the three-month period ended June 30, 2002.

Netgraphe Inc.

Notes to Consolidated Financial Statements

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(Unaudited)

5. SECTORIAL INFORMATION

Earnings before income tax, unusual items, interest, depreciation and amortization (EBITDA)

	Period of three months ending June 29 2002	Period of three months ending June 30 2001	Period of six months ending June 29 2002	Period of six months ending June 30 2001
Internet services	\$ (1 021 111)	\$ (5 645 566)	\$ (2 962 528)	\$ (11 239 143)
Consulting services	133 779	37 505	291 680	168 755
	\$ (887 332)	\$ (5 645 191)	\$ (2 670 848)	\$ (11 070 388)

Consolidated Balance sheet items as at June 29 2002 and December 31 2001

	June 29 2002	December 31 2001
Total Assets (excluded goodwill)		
Internet services	\$ 10 458 769	\$ 16 806 011
Consulting services	3 260 115	3 566 474
Goodwill		
Internet services	\$ 30 894 215	\$ 61 810 215
Consulting services	2 200 890	2 200 889