ENVOY COMMUNICATIONS GROUP INC
Form 20-F/A
February 20, 2002

As filed with the Securities and Exchange Commission on February 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

[ ] Registration statement pursuant to Section 12(b) or (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, 2001

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)

ENVOY COMMUNICATIONS GROUP INC.
(Translation of Registrant's name into English)

Ontario, Canada
(Jurisdiction of incorporation or organization)

26 Duncan Street, Toronto, Ontario, Canada M5V 2B9
(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)

NONE
(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, 2001 there were 20,725,950 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
All monetary amounts contained in this Form 20-F are, unless otherwise indicated, expressed in Canadian dollars. On February 14, 2002 the noon buying rate for Canadian Dollars as reported by the Federal Reserve Bank of New York was $1.00 U.S. to $1.592 Cdn. (see Item 9 for further exchange rate information to U.S. currency.)

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

"Not applicable"

Item 2. Offer Statistics and Expected Timetable

"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, 1997 and 1998, and the balance sheet data of Envoy as of September 30, 1997 and 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.

(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 15 to the Notes to the audited Financial Statements of Envoy as well as in Note 4 to the following table. Envoy's results of operations under U.S. GAAP for the years ended September 30, 2001, 2000 and 1999 are as disclosed in Note 15 to the Notes to the audited Financial Statements of Envoy.

	September 30				
	2001(1)	2000(2)	1999(3)	1998(4)	1997
	(all amounts in 000s of Canadian dollars, except per share data)				
Statement of Operations Data:					
Net revenue	80,792	58,606	41,787	13,491	8,675
EBITDA(5)	7,003	10,151	7,280	2,090	1,393

Net Earnings(6)	(2,895)	2,910	2,877	1,503	1,179
Net Earnings per Share(6)	($0.14)	$0.15	$0.20	$0.15	$0.12

	September 30				
	2001	2000	1999	1998	1997
	(all amounts in 000s of Canadian dollars)				
Balance Sheet Data:					
Current Assets	51,138	43,337	44,521	15,684	6,352
Total Assets	113,850	102,308	75,748	25,330	8,709
Total Debt(7)	11,928	10,832	3,978	300	-
Shareholders' Equity(8)	61,319	62,687	40,612	13,317	3,937
Retained Earnings(9)	$5,603	$8,403	$5,493	$2,682	$1,179

(1) 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 Date of Gilchrist is british pounds 1.00 to $2.2122 Cdn. and with respect to the Balance Sheet Date of Gilchrist is british pounds 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 affects the comparability of the information in the Selected Financial Data.

(2) 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 Date of Gilchrist is british pounds 1.00 to $2.1885 Cdn. and with respect to the Balance Sheet Date of Gilchrist is british pounds 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.

(3) 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, 2000, 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.

(4) 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.

(5) EBITDA represents earnings before interest expense, income taxes, depreciation and amortization.

(6) As reflected in Note 15 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, 2001 was ($3,830,675), $2,910,427 and $1,928,798; and the diluted net earnings per share for the years ended September 30, 2001, 2000 and 1999 was ($0.18), $0.15 and $0.12, respectively.

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

(8) As reflected in Note 15 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, 2001 and 2000 was $61,270,082 and $62,686,801, respectively.

(9) During 1997, the share capital of Envoy was reduced by $9,886,961 pursuant to a special resolution of the shareholders dated August 15, 1997. The reduction in share capital was applied against the opening deficit of $9,886,961. Retained earnings as at September 30, 2001, 2000, and 1999, excludes the cumulative foreign currency translation adjustment of $832,880, ($314,328) and ($494,844), respectively. See Note 1(g) to the Notes to the audited consolidated Financial Statements of Envoy. This amount is not recorded for U.S. GAAP purposes.

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 14, 2002, the noon buying rate for Canadian dollars as reported by the Federal Reserve Bank of New York was $1.00 U.S. to 1.592 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.

	September 30				
	1997	1998	1999	2000	2001
Average*	1.3702	1.5265	1.5033	1.4724	1.5353

* 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 2002	December 2001	November 2001	October 2001	September 2001	August 2001
High	1.5162	1.5458	1.5600	1.5311	1.5797	1.5490
Low	1.4944	1.4995	1.5263	1.4954	1.5535	1.5275

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.

Non-compliance with financial covenants of debt facility. Under the terms of our debt facility, Envoy is required to maintain certain financial ratios. As at September 30, 2001 Envoy was not in compliance with one of the debt covenants involving trailing twelve months earnings before taxes, interest, depreciation and amortization and Envoy will continue to be in violation of this covenant in fiscal 2002. The lenders have waived the violation of this covenant as of September 30, 2001 and are in discussions with Envoy regarding amendments to the covenant calculations going forward and any actions to be taken by Envoy at the request of the lenders, although no assurances can be made that the lenders will agree to such amendments or that we will be able to take any action which may be requested by the lenders. Under the terms of the facility, if the covenants are not met, the lenders can demand repayment of the outstanding borrowings. We are in the process of considering possible actions which we might take if the lenders demand such repayment.

The marketing communications, design and technology industries are highly competitive. Envoy has competition in each of the markets in which it operates. In the advertising/marketing field, Envoy competes with companies such as Omnicom Group Inc., Interpublic Group of Companies Inc., WPP Group PLC, Ogilvy & Mather (Canada) Ltd., Bcom3 Group Inc., Havas Advertising and 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. In technology, we compete with companies such as IBM services, Modem Media Inc., and Cyberplex Inc. Envoy faces competition from numerous national and regional advertising agencies as well as specialized and integrated marketing communications firms.

There can be no assurance that Envoy will continue to be profitable. Although Envoy has had positive net revenue and EBITDA and experienced revenue growth in recent periods, our net revenue growth rate may not be sustainable or indicative of future operating results. In addition, Envoy has incurred substantial costs to expand and integrate its operations and it intends to continue to invest heavily in ongoing expansion. Envoy's ongoing integration

costs will include the combination of the financial, information and communications systems of the various acquired companies. Envoy's ongoing expansion costs will include the costs of acquiring new businesses, leasing of additional office space, hiring new employees and purchasing new computer and communications equipment. As a result of these and other costs, Envoy may incur future operating losses, and there can be no assurance that Envoy will sustain profitability. In the current year Envoy had a net loss of $2.9 million.

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, 2001 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	Year Ended September 30, 2001
Asda Stores Limited	13.6%
Five largest clients combined	37.5%

There can be no assurance that Envoy will be able to maintain its historical rate of growth or its current level of gross margin 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 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 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.

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, especially the technology 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.

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.

The marketing communications, design and technology industries are cyclical and a downturn in the industry may adversely affect Envoy's business. The marketing communications industry is cyclical and as a result it is subject to downturns in general economic conditions and changes in one or more client business and marketing budgets. Our prospects, business, financial condition and results of operations may be materially adversely affected by a downturn in general economic conditions in one or more markets or changes in our clients business and marketing budgets.

The market for certain of Envoy's technology services is subject to uncertainties. The market for Internet technology professional services ("ITPS") is changing rapidly. The market success of ITPS providers is subject to a high level of uncertainty and is dependent on a number of factors, primarily:

- the growth in consumer access to and acceptance of new interactive technologies, such as the Internet, online services and corporate intranets; and
- the ability to anticipate new technologies and incorporate them into ITPS offerings in a timely fashion.

Future commercial use of platforms currently serviced by ITPS providers may change dramatically, negatively impacting the demand for ITPS providers dependent on outdated technology. Other issues include security, privacy, reliability, cost, ease of use and quality of service of the underlying technology. If the market for ITPS develops more slowly than we expect, or if our technology services do not continue to achieve market acceptance, our future operating performance could be materially adversely affected.

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 Communications Group Inc. ("Envoy") is an international design, marketing and technology company with offices in North America and Europe. Combining strategy, creativity, and innovation, Envoy's interconnected network of companies delivers business-building solutions to over 200 leading global brands and has successfully completed assignments in more than 40 countries around the world. Our clients include Adidas/Salomon Canada Ltd., ("Adidas/Salomon"), Asda Stores Limited ("Asda"), BASF Corporation ("BASF"), CDNOW, Federal Express Canada ("FedEX), JP Morgan Chase, Lexus a division of Toyota Canada Inc. ("Lexus"), Nissan Canada Inc. ("Nissan"), Panasonic Canada Inc. ("Panasonic Canada"), Safeway Incorporated ("Safeway"), Sprint Canada Inc. ("Sprint Canada"), Steelcase Canada Incorporated Ltd. ("Steelecase Canada"), Steelcase USA, TD Waterhouse Investor Services Inc. ("TD Waterhouse Investor Services"), and Wal-Mart Stores Inc. ("Wal-Mart"). As of September 30, 2001, we served over 250 clients. We generated $80.8 million Cdn. of net revenue for our fiscal year ended September 30, 2001 and $58.6 million Cdn. for the year ended September 30, 2000.

The principal place of business of Envoy is located at 26 Duncan Street, Toronto, Canada M5V 2B9. Envoy may be reached by telephone: (416) 593-1212; or 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 Envoy's acquisition in July 1991 of The Incentive Design Company Ltd. ("IDC"), Envoy has shifted the nature of its business to providing marketing communications 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.

In July 1991, Envoy acquired IDC, a group of companies engaged in business and marketing communications, corporate incentive planning and corporate travel from Geoffrey Genovese and Christine Genovese, his wife. Geoffrey B. Genovese was the President and Chief Executive Officer of IDC at the time of such acquisition and has served in such capacities for Envoy since October 1993.

Envoy acquired The Communique Group Inc. (the "Communique Group") in October 1992.

In October 1997, Envoy effected an amalgamation of the Communique Group and three other subsidiaries of Envoy through which Envoy's business communications and product design services were provided, with the Communique Group being the continuing entity. Effective as of June 1, 1998, Envoy acquired Promanad Communications Inc. ("Promanad"), an advertising and public relations 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 January 1, 1999, Envoy acquired Devlin Multimedia Inc. ("Devlin"), a Toronto-based website design and development company. 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 and marketing identity services to retailers. Donald G. Watt was Chairman of Watt Design prior to such acquisition by Envoy and now serves as Chairman of Watt International and a Director of Envoy.

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. 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.

During July 2001, Envoy launched John Street Inc. a Toronto based advertising and Communications initiative to replace the advertising business previously conducted by the Communique Group Inc.

B. Business overview

Our Solution

Our aim and motivation is to work with clients who are brand conscious and value creative solutions to their marketing communication, design and technology needs. They have expectations that advertising/marketing, design and technology can positively affect their business in a fundamental way and they require our Company to act as their business partner. We have developed a working methodology, which ensures that strategic solutions go beyond a

simplistic response to consumer views and attitudes. Strategic planning at Envoy is rooted not only in our client's brand and its relationship with the consumer but as importantly within the context of the clients' business objectives.

We focus on developing strategies which provide solutions to business problems and which inspire creative teams to produce solutions that are original, distinctive and also commercially relevant.

Our strategic planning tools have been refined to raise the level of contribution to client business.

Our approach appeals particularly to clients who demand outstanding creative work and thinking that has an impact on the consumer and provides a catalyst for change within their organization.

As we move towards an ever increasingly complex media environment, our clients appreciate our ability to produce brand ideas that are capable of exploitation across all channels of communication. Envoy is recognized as an innovator of branding ideas which work in multi-channel broadcast, print, public relations, retail and digital formats.

By providing the option of accessing the integrated services of several of our operating divisions, we can provide clients the opportunity to communicate in one clear voice through a range of media channels. Our employees have expertise in a broad range of disciplines including business strategy, marketing, branding, information technology and creative design. We can work with a client from the analysis of its business objectives to the implementation of an appropriate solution. As a result, clients can benefit not only from the time and cost savings of working with a single firm, but also from the integrated marketing communications strategy made possible by our integrated and coordinated range of marketing communications services. Based upon various competitors' public information and management's dealings with clients and prospective clients, we believe that this differentiates us from advertising/marketing, brand design or Internet service providers that focus on a single aspect of the range of marketing communications services.

Our Strategy

Our goal is to be our clients' most valued business partner in building and leveraging their brands through marketing services, design services and technology. We believe that we have brought together best of breed companies and talent 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 standardin 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.

Develop our client base through the cross-selling of our services.

We plan to continue offering integrated service on an international platform. We intend to capitalize on the convergence in the demand for our services in the marketplace by cross-selling our services to existing clients and

leveraging our platform to win new business.

Expand our service offerings

We intend to pursue opportunities to expand our service offerings, either by extending the core disciplines beyond design, marketing and technology, or by development of new service offerings within the current three disciplines. Examples of further core disciplines may include strategic consulting and public relations.

Pursue strategic acquisitions

We intend to continue to pursue strategic acquisitions to extend both our depth of expertise and our geographic reach in each of our core disciplines. The efforts to extend Envoy's geographic reach and breadth of service offering add a significant degree of diversification and strength to our business model.

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 000's Canadian dollars)

Net revenue:	Fiscal 2001	Fiscal 2000	Fiscal 1999
Marketing	$24,375	$28,772	$30,317
Design	41,444	22,247	9,421
Technology	14,973	7,586	2,049
	$80,792	$58,606	$41,787

Net revenue by geographic region, based on the region the customer is located, is as follows: (all amounts in 000's Canadian dollars)

Net revenue:	Fiscal 2001	Fiscal 2000	Fiscal 1999
Canada	$19,833	$21,981	$19,153
United States	40,970	32,559	22,634
United Kingdom and Continental Europe	19,989	4,066	-
	$80,792	$58,606	$41,787

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. Our various agencies operate across the U.S., Europe and Canada to provide our clients with a consistent international marketing message. We have created numerous memorable marketing communications campaigns for our clients including "We Make a Lot of the Products you use Better" for BASF.

Design

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, architects and strategists help our clients develop new retail store concepts, design store layouts and assess and predict consumer shopping behavior in both brick-and-mortar and online retail environments.

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 client's brands.

Technology

We provide our clients with technology solutions that encompass front-end user interfaces and back-end transactional capability as well as proprietary collaborative software. Our technology services are compatible with Microsoft, IBM and Oracle and can provide clients with complete and fully integrated digital solutions.

Our front-end services include the design, usability assessment, development and maintenance of our clients' websites, research and strategic consulting regarding the Internet and the design and production of on-line advertisements.

Our back-end services complement our web-development services with leading edge e-commerce, knowledge management and infrastructure solutions. We are a leading Microsoft Solution Provider Partner in Canada and New York and are part of an elite group of organizations that sit on Microsoft's Partner Advisory Council. Through the council, we assist in providing guidance on key issues that ultimately shape Microsoft's channel strategy for delivering solutions and services.

We have developed a proprietary web-based communications tool referred to as "Decision Room". Decision Room is an on-line "meeting room" that allows users to easily exchange graphic or text files through password-protected access and enables review, feedback and approval in virtual business meetings.

By combining Sage's back-end solutions and Microsoft accreditation, with

Devlin's award winning web design skills and IBM and Oracle expertise, our technology group is platform agnostic and can therefore provide our clients with complete and fully integrated digital solutions.

Industry Overview

-- Worldwide Advertising Market

The combined worldwide advertising expenditures is now forecast for a gain of 6.2% to $494.1 billion in year 2001, according to ABC News. Companies are increasingly focused on the image and brand of their organizations, products and services and are spending more advertising dollars to differentiate themselves from competitors and increase customer loyalty. In addition, corporate consolidation has resulted in worldwide brands that must be supported across many markets.

Increased advertising expenditures are being supported by increased spending on below-the-line marketing services, as companies aim to reach their target audiences and quantify the effectiveness of their communications. Companies are increasingly utilizing interactive marketing, in-store concepts, database marketing and other direct marketing tools to deepen relationships with their existing customers and attract and retain new customers.

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 marketing and public relations.

-- 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.

-- Technology Services

The Internet presents opportunities to transform businesses and entire industries as organizations exploit its potential to extend and enhance their brands and business activities. Companies are increasingly using the Internet to communicate and transact business on a one-to-one basis with existing customers and to target and acquire new customers. As a result, organizations are investing in the strategic use of Internet solutions to transform their businesses.

Worldwide spending on information and communication technology totaled more than US$2.1 trillion in 2001 and was expected to surge 50% by 2004. It is expected to surpass $3 trillion in 2003. (The World Information Technology and Service Alliance.)

While many Internet professional services firms focus on either the creative, strategic or technical aspects of Internet communications, few firms are able

to successfully integrate all three into their offering. Companies are seeking to work with Internet solutions providers that have expertise in technical, as well as the creative and strategic aspects of the Internet.

-- Convergence

We believe, as companies become global, their marketing strategies become global and the Internet becomes an important part of reaching existing and prospective customers, companies are looking to integrate their marketing communications strategies. We believe that companies will look to partner with firms that can seamlessly provide an integrated global offering that encompasses advertising, marketing, design and technology.

-- 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.

Due to the increasing popularity and use of the Internet services, any number of Canadian federal or provincial or foreign international laws and regulations may be adopted regarding libel, pricing, acceptable content, intellectual property ownership, taxation and quality of products and services. US law makers have enacted legislation that regulates aspects of the Internet, including domain name disputes and trademark infringement, the use of filters in schools and libraries, piracy of digital content, liability for online copyright infringement, e-commerce taxation, electronic signatures, disclosure of financial information, children's privacy and children's access to adult content. In addition, U.S. lawmakers have introduced legislation relating to the Internet that would govern online gambling, unsolicited commercial email, employer monitoring of employees, Internet access charges, and consumer privacy. Any new legislation in these areas has the potential to inhibit the growth in use of the Internet and decrease the acceptance of the Internet as a communications and commercial medium, or could in turn decrease the demand for Envoy's services or otherwise have a material adverse effect on Envoy's future operating performance.

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

Watt Russell (USA) Inc.	75	Delaware
John Street Inc.	65	Ontario

D. Property, plants and equipment

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

Envoy's principal executive offices consist of a five-story office building of approximately 36,000 square feet located at 26-28 Duncan Street, Toronto, Ontario, Canada. The offices are leased pursuant to a lease with an initial term of five years expiring on September 30, 2002 and a current rent of $180,000 Cdn. per annum. The lease may be renewed by Envoy on six months prior written notice for a first option term of three years, a second option term of two years and a third option term of five years at specified increased rents per each renewal period. Notice has been given for the first option term. In connection with the lease negotiation, the landlord advanced to Envoy $400,000 Cdn. as a loan, with an interest rate of 0.925% per annum, for leasehold improvements, to be repaid over five years which repayment commenced October 1, 1997. The leasehold improvements involved modernization of the facilities and other modifications expected to benefit both Envoy and the landlord. The principal balance of such loan at September 30, 2001 was $101,000 Cdn.

Envoy has additional office space which consists of a five-story office building of approximately 20,000 square foot located at 172 John Street, Toronto, Ontario. These premises have been leased pursuant to a lease with a term which commenced on July 1, 1999 and expires in June 2002, and a current annual rent of $124,800 Cdn. which 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 modernization of the facilities and other modifications expected to benefit both Envoy and the landlord. The principal balance of this loan at September 30, 2001 was $625,000 Cdn.

The offices of Envoy's wholly-owned subsidiary Devlin are currently 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 expires in July 2002. Management is currently in discussions regarding the renewal of this lease.

The executive offices of Envoy's wholly-owned subsidiary, Hampel Stefanides, are located at 111 Fifth Avenue, New York, New York. The offices consist primarily of (i) 18,000 square feet of office space leased pursuant to a lease (the "HSI Lease") that expires in June 2004 with a current annual rent of approximately US$324,000 with annual rent increases each year of the lease term; and (ii) 18,000 square feet of office space pursuant to a lease that expires in May 2011 with a current annual rent of approximately US$846,000 with annual rent increases each year of the lease term.

The HSI Lease requires Hampel Stefanides to maintain a letter of credit in the amount of US$250,000, secured by a restricted cash deposit, to serve as a security deposit.

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. which expires in March 2005.

The offices of Envoy's wholly-owned subsidiary, Gilchrist, consist of an office 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 british pounds 136,000 which expires in February 2009. Gilchrist has additional office space of approximately 3,000 square feet located at 156-164 Tooley Street, London SE1, England. The premises are leased pursuant to a lease with a current annual rent of british pounds 26,550 which expires in December 2002.

Clients

Our customers consist primarily of large multinational businesses and regional accounts. No single client accounted for over 18% of net revenue for the year ended September 30, 2001. Our clients include: Adidas/Salomon, Asda, BASF, CDNow, FedEX, JP Morgan Chase, Lexus, Microsoft, Nissan, Panasonic Canada., Sprint Canada, Safeway Inc., Steelcase Canada, Steelecase USA, TD Waterhouse Investor Services, and Wal-Mart

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 15 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

Envoy is an international design, marketing and technology company with offices throughout North America and Europe. Combining strategy, creativity and innovation, Envoy's interconnected network of companies delivers business-building solutions to over 200 leading global brands and has successfully completed assignments in more than 40 countries around the world. Our clients include Asda, BASF, CDNOW, Safeway and Wal-Mart. As of September 30, 2001, we served over 250 clients. We generated $80.8 Cdn. million of net revenue for the year ended September 30, 2001 and $58.6 Cdn. million for the year ended September 30, 2000.

-- Net Revenue
(Previously referred to as "gross margin" in fiscal 1999) 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 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 1998 fiscal year, Envoy had tax loss carryforwards sufficient to cover its Canadian income tax liabilities. In 1999, Envoy fully utilized previous tax loss carryforwards to reduce its Canadian income tax liability as set forth in Note 10 to the Notes to the audited consolidated Financial Statements of Envoy.

A. Operating results

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

-- Net revenue
Net revenue increased by 38% to $80.8 million in the year ended September 30, 2001 from $58.6 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 51% and 19% respectively.

Net revenues from customers located in the United States have continued to grow from $32.6 million in fiscal 2000 to $41 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 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.

-- EBITDA

Management believes that earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") is an important measure of profitability when evaluating a company growing through acquisitions. EBITDA is a standard measure that is commonly reported and widely used by analysts, investors and other interested parties in the marketing industry, accordingly this information has been disclosed herein to permit a more complete comparative analysis of our operating performance. Using EBITDA, eliminates distortions created by goodwill amortization, tax rates, interest charges and other non-recurring charges or gains and makes the operating results more comparable to those of other companies, particularly those companies which account for acquisitions using pooling of interests accounting. In computing EBITDA we have excluded the charge taken in 2001 in respect of the costs associated with an aborted acquisition and the related equity offering, which is presented as an unusual item under generally accepted accounting principals. We have excluded this charge, as management believes such costs are non-recurring in nature. There were no similar unusual charges or unusual gains in prior years. EBITDA should not be considered as a substitute or alternative for net earnings or cash flow.

In fiscal 2001, Envoy earned $7 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 Communique Advertising in Canada. In addition goodwill amortization for the fourth quarter amounted to approximately $800,000.

-- Operating Expenses

Operating expenses increased by 52% to $73.8 million for fiscal 2001 from $48.5 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 $4.6 million or, 43%; 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 66% for fiscal 2001 compared with 60% 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 relatively constant at 19% of net revenue for fiscal 2001 compared with 18% of net revenue for 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.

Year Ended September 30, 2000 compared to Year Ended September 30, 1999

-- Net revenue
Net revenue increased by 40% to $58.6 million in the year ended September 30, 2000 from $41.8 million in the year ended September 30, 1999. This increase occurred as a result of both growth through acquisition and organic growth. Effective July 1, 2000 Envoy acquired Gilchrist and effective June 1, 2000, Envoy acquired Sage. Both acquisitions were accounted for using purchase accounting and Envoy's results of operations reflect net revenue from their respective effective dates. These acquisitions accounted for approximately $8.6 million, or 51% of the overall increase in net revenue. Envoy's increase in net revenue was due to organic growth in fiscal 2000 of $4.5 million, representing 27% of the overall increase in net revenue for the year.

In fiscal 1999, Envoy completed three acquisitions: the acquisition of Hampel Stefanides effective October 1, 1998, the acquisition of Devlin, effective January 1, 1999 and the acquisition of Watt International, effective May 1, 1999. Envoy's results of operations for fiscal 1999 include the acquired operations from their respective dates of the acquisitions. As a result of the acquisitions of Devlin and Watt International, there are an additional three and seven months of net revenues for these companies, respectively, included in the September 30, 2000 results of operations that were not

included in the results of operations for the year ended September 30, 1999. There are twelve months of net revenues of Hampel Stefanides included in our results of operations for the year ended September 30, 1999.

In fiscal 2000, net revenue from Envoy's marketing services represented approximately 49% of net revenue, while design and technology services represented 38% and 13% respectively.

Net revenues from customers located in the United States grew from $22.6 million in fiscal 1999 to $32.6 million in fiscal 2000. As a result of acquisitions, in fiscal 2000 net revenues of $4 million were generated from customers in the United Kingdom and continental Europe.

In fiscal 2000 we endeavored to continue to expand our client base and our five largest clients accounted for 33.7% of our fiscal 2000 net revenue for such period as compared to 37.7% of our fiscal 1999 net revenue. No single client accounted for over 15% of our net revenue in either year.

-- EBITDA

In fiscal 2000, Envoy earned $10.2 million in EBITDA compared with $7.3 million in fiscal 1999. This represents a growth rate of 39% year over year. The EBITDA profit margin in 2000 was 17.3%, similar to the EBITDA profit margin of 17.4% achieved in 1999.

-- Operating Expenses

Operating expenses increased by 40% to $48.5 million for fiscal 2000 from $34.5 million for fiscal 1999. As a percentage of net revenue, operating expenses remained constant at 83% for fiscal 2000 and fiscal 1999. The primary reasons for the increase in operating expenses were an increase in salaries and benefits of $9.4 million, or 37%; an increase in general and administrative expenses of $3.9 million or, 56%; and an increase in occupancy costs of $675,000, or 36%. There were also increases in depreciation of $543,000, or 38%, and of goodwill amortization net of taxes of $984,000, or 161%. 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 decreased somewhat to 60% for fiscal 2000 compared with 62% in fiscal 1999. 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 relatively constant at 18% of net revenue for fiscal 2000 compared with 17% of net revenue for fiscal 1999. Occupancy costs increased due to additional space required to support our growth in Toronto and New York, the inclusion of Watt International's occupancy costs for an additional seven months and the occupancy costs associated with the acquisition of Sage and Gilchrist. The additional depreciation charges were due to the depreciation of the costs of our additional leasehold improvements and of newly purchased capital equipment as a result of our expanded operations. The increase in interest charge was largely due to additional debt relating to acquisitions.

Earnings before income taxes and goodwill amortization increased from $5.5 million to $7.8 million in fiscal 2000, an increase of 41.3%.

In fiscal 2000, our effective income tax rate as a percentage of net income before goodwill amortization was 41.9% compared with our fiscal 1999 effective tax rate of 36.5%. The difference in the rate relates primarily to the utilization in fiscal 1999 of remaining tax loss carryforwards, reducing our Canadian income tax liability as set forth in Note 10 of the Notes to our audited consolidated financial statements of Envoy.

Goodwill amortization increased from $610,000 in fiscal 1999 to $1.6 million in fiscal 2000 due largely to the increased amount of goodwill derived form the acquisitions discussed above. In addition, we reduced the goodwill amortization period for Devlin from 25 years to 7 years, effective October 1, 1999, on a prospective basis. Our goodwill is largely not deductible for income tax purposes.

-- Net Earnings
Primarily as a result of the foregoing factors, net earnings remained relatively constant at $2.9 million in fiscal 2000 and fiscal 1999.

B. Liquidity and capital resources

Envoy's principal capital requirements have been to fund acquisitions, including related earn-outs, capital expenditures and for working capital purposes. During the year, the Company established an extendable revolving line of credit under which it can borrow funds in either Canadian dollars, U.S. dollars or U.K. Pounds Sterling, provided the aggregate borrowings do not exceed $40,000,000 Canadian. Advances under the line of credit can be used for general purposes (to a maximum of $2,000,000) and for financing acquisitions which have been approved by the lenders. Envoy intends to continue to seek suitable businesses to acquire in furtherance of our expansion strategy. Envoy may issue additional equity or draw on the debt facility to fund any such acquisitions. Envoy used its borrowings under this facility to repay its US dollar revolving credit facility. As at September 30, 2001 only $7.8 million had been borrowed under the facility, none of which was for general corporate purposes.

Under the terms of our debt facility, Envoy is required to maintain certain financial ratios. As at September 30, 2001 Envoy was not in compliance with one of the debt covenants involving trailing twelve months earnings before taxes, interest, depreciation and amortization and Envoy will continue to be in violation of this covenant in fiscal 2002. The lenders have waived the violation of this covenant as of September 30, 2001 and are in discussions with Envoy regarding amendments to the covenant calculations going forward. Under the terms of the facility, if the covenants are not met, the lenders can demand repayment of the outstanding borrowings. We are in the process of considering possible actions, which we might take if the lenders demand such repayment.

Envoy had a working capital deficit of ($430,000) and a cash balance of $21.8 million at September 30, 2001. The decrease in working capital is a result of the entire amount of Envoys bank debt as well as the Gilchrist note, being classified as a current liability. At September 30, 2000 working capital was $11.7 million and cash was $7.1 million. See Note 8 to our audited consolidated financial statements.

Net cash provided by operating activities before any increase or decrease in non-cash operating working capital was $2.5 million for the fiscal year ended September 30, 2001 and 6.2 million for the fiscal year ended September 30, 2000.

Additional consideration may be payable in respect of the acquisition of Hampel Stefanides through September 30, 2002 depending on the financial performance of Hampel Stefanides over that period (to a maximum of $770,000 in cash and 258,936 common shares); in respect of the acquisition of Sage through May 31, 2004 depending on the financial performance of Sage over that period (to a maximum of $10.1 million in cash and 1,358,984 common shares).

On June 5, 2000, Envoy issued 1,533,571 common shares through a public

offering for aggregate gross proceeds of $10.7 million (or $7.00 per share). Of the proceeds (after deduction of the agent's fee and expenses of the issue totalling $1.2 million), $6.8 million was used to finance the cash payment made subsequent to June 30, 2000 on the closing of the Sage acquisition and the remainder for acquisitions and general corporate purposes. See Item 4 "Information on the Company" for a description of such acquisition.

At September 30, 2001, Envoy had restricted cash of $159,000 ($457,000 at September 30, 2000) representing customer deposits. See Note 4 to our audited consolidated financial statements.

C. Research and development, patents and licenses, etc.

"Not applicable"

D. Trend Information

"Not applicable"

Item 6. Directors, 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, 2002. 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	Positions held with Envoy
Geoffrey B. Genovese	Chairman and Chief Executive Officer and Director
John H. Bailey (1),(2)	Secretary and Director
David Hull (2)	Director
Hugh Aird (1),(2)	Director
Eric A. Demirian (1)	Director
Tom E. S. Wright	President and Chief Operating Officer and Director
Donald G. Watt	Director
Stephen J. Miller	Vice President, Marketing and Corporate Communications
J. Joseph Leeder	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 became Chairman of Envoy in October 2001, and currently serves as Chairman and President of Envoy Communications Group Inc. Mr. Genovese served as President and Chief Executive Officer of Envoy from October 1993 to September 2001. Mr. Genovse 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.

-- 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.

-- Eric A. Demirian
Mr. Demirian has been the Executive Vice President of Corporate Development for GT Telecom, Inc. since January 2000. From October 1992 to January 2000, Mr. Demirian was a partner with Pricewaterhouse Coopers LLP where he was the head of its Information and Communications Industry Practice for Canada. Mr. Demirian received a Bachelor of Business Management from Ryerson University and is a Certified General Accountant and a Chartered Accountant. Mr. Demirian became a director of Envoy in January 2002.

-- Tom E. S. Wright
Mr. Wright joined Envoy as President and Chief Operating Officer in October 2001. Prior to joining Envoy, Mr. Wright was President and CEO of Salomon North America, a division of Adidas-Salomon AG from March 1999 to December 2000. From January 1988 to March 1998, Mr. Wright was the President of Adidas Canada Ltd. Mr. Wright became a director of Envoy in April 2001.

-- Donald G. Watt
Mr. Watt founded the predecessor to 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. See "Item 9.A -Offer and listing details" for discussion of a strategic alliance agreement between the Watt International and a company of which Mr. Watt is the principal.

-- Stephen J. Miller
Mr. Miller joined Envoy as Vice President, Corporate Development in October 2000. Prior to joining Envoy, Mr. Miller was the Vice President, Sales and Marketing of the Canadian operations of Dunlop Maxfli Sports from 1998 to 2000. From 1997 to 1998, Mr. Miller was the Vice President, Sales and Marketing of Mary Kay Cosmetics and prior thereto the Regional Sales Director of Johnson & Johnson, from 1991 to 1996.

-- 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.

B. Compensation

The following table sets forth in Canadian dollars all compensation for the fiscal year ended September 30, 2001 paid to the President and 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		
Name and Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)
Geoffrey B. Genovese, Chairman and Chief Executive Officer	356,250	-	685,000(1)
J.Jospeh Leeder, Vice President, and Chief Financial Officer	238,767	170,000	-
Brian Goodall, President,	350,000(2)	-	-

Hampel Stefanides, Inc.			
Stephen Miller, Vice President Marketing and Corporate Communications	162,917(3)	-	-
Chetan Mathur, C.E.O., Sage Information Consultants Inc.	487,488	-	-

	Long Term Compensation			All Other Compensation
	Awards		Payouts	
Name and Position	Securities Under Option/SARs Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts($)	
Geoffrey B. Genovese, Chairman and Chief Executive Officer	-	-	-	-
J. Jospeh Leeder, Vice President, and Chief Financial Officer	-	-	-	-
Brian Goodall, President, Hampel Stefanides, Inc.	-	-	-	-
Stephen Miller, Vice President Marketing and Corporate Communications	25,000	-	-	-
Chetan Mathur, C.E.O., Sage Information Consultants Inc.	-	-	-	-

(1) The amount was paid to a corporation related to Mr. Genovese and includes $75,000 as an annual management fee and the balance as a fee for successful completion of acquisitions by and the credit facility for the Corporation.

(2) Mr. Goodall's compensation is stated and paid in US dollars.

(3) Mr. Miller became an executive officer of the Corporation on October 16, 2000. The information is provided for all compensation paid from the date to September 30, 2001.

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:

Stock Options Granted During 2001 Fiscal Year

Stephen Miller	
Shares Under Options Granted (#)	25,000(1)
Percentage of Total Options Granted to Employees(1) (%)	3.2%
Date of Grant	January 24, 2001
Exercise Price ($/Share)	$4.80
Market Value of Shares Underlying Options on Date of Grant ($/Share)	$4.80
Expiry Date	January 23, 2006

(1) These options vest at the rate of 1/3 on each of the first three anniversaries of the date of grant.

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:

Stock Options Exercised During 2001 Fiscal Year

Geoffrey B. Genovese	
Number of Shares Acquired on Exercise	Nil
Aggregate Value Realized ($)	Nil
Unexercised Options at FY-End (#) Exercisable/Unexercisable	450,000/nil
Value of Unexercised In-the Money Options at FY-End ($) Exercisable/Unexercisable(1)	0/nil

Joseph Leeder	
Number of Shares Acquired on Exercise	Nil
Aggregate Value Realized ($)	Nil
Unexercised Options at FY-End (#) Exercisable/Unexercisable	150,000/100,000
Value of Unexercised In-the Money Options at FY-End ($) Exercisable/Unexercisable(1)	0/0

Brian Goodall	
Number of Shares Acquired on Exercise	Nil
Aggregate Value Realized ($)	Nil
Unexercised Options at FY-End (#) Exercisable/Unexercisable	50,000/50,000
Value of Unexercised In-the Money Options at FY-End ($) Exercisable/Unexercisable(1)	0/0

Stephen Miller	
Number of Shares Acquired on Exercise	Nil
Aggregate Value Realized ($)	Nil
Unexercised Options at FY-End (#) Exercisable/Unexercisable	nil/25,000
Value of Unexercised In-the Money Options at FY-End ($) Exercisable/Unexercisable(1)	0/0

Chetan Mathur	
Number of Shares Acquired on Exercise	Nil
Aggregate Value Realized ($)	Nil

Unexercised Options at FY-End (#) Exercisable/Unexercisable	nil/nil
Value of Unexercised In-the Money Options at FY-End ($) Exercisable/Unexercisable(1)	0/0

(1) The closing stock price of the Common Shares of the Company on the Toronto Stock Exchange on September 28, 2001 was $2.16.

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 Demirian are entitled to receive an annual director's fee of $20,000. In addition, each of Messrs. Aird, Demirian and Hull are entitled to receive a fee of $500 for each Board 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 Corporation's Stock Option Plan.

Employment Contracts and Termination Agreements

The Corporation, its wholly owned subsidiary, Hampel Stefanides, Inc. ("Hampel"), and Sage Information Consultants Inc. ("Sage") have entered into employment contracts with the Named Executive Officers.

Geoffrey B. Genovese has agreed to act as the Corporation's Chairman 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. During the period from February 1, 2002 to September 30, 2002, Mr. Genovese has 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. The management agreement has a fixed term ending on September 30, 2003.

Tom Wright has agreed to act as the Corporation's President and Chief Operating Officer, effective October 1, 2001, at an annual base salary of $400,000, together with a discretionary bonus based on the achievement of agreed upon criteria established from time to time by the Compensation Committee. During the period from February 1, 2002 to September 30, 2002, Mr. Wright has agreed to a 10% reduction in his base salary. This agreement provides for a severance payment equivalent to up to 18 months base salary and benefits if his employment is terminated, without cause, by the Corporation or 24 months if his employment is terminated, without cause, by the Corporation following a change of control of the Corporation.

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. During the period from February 1, 2002 to September 30, 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.

Brian Goodall has agreed to act as Hampel's President at an annual base salary of US$350,000. This agreement has a fixed term of 4 years ending on September 30, 2002.

Stephen Miller has agreed to act as the Corporation's Vice President, Marketing and Corporate Communications, at an annual base salary of $170,000, together with a discretionary bonus of up to 25% of his base salary. This agreement provides for a severance payment equivalent to his base salary for a period of six months, if his employment is terminated by the Corporation.

Chetan Mathur has agreed to act as Sage's Chief Executive Officer at an annual base salary of US$325,000. This agreement has a fixed term of 4 years ending on June 1, 2004.

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, 2001, Envoy paid approximately $242,000Cdn. to John H. Bailey, Barrister & Solicitor, for legal services provided to Envoy.

Directors' and Officers' Liability Insurance

Envoy maintains liability insurance with total annual coverage of $10,000,000 Cdn. per incident for all its directors and officers in their capacities as such.

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 seven directors of the Corporation, three 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 TSE Report). Geoffrey Genovese, the Chairman and Chief Executive Officer of the Corporation, Tom Wright, the President and Chief Operating 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 Eric Demirian 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.

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, Eric Demirian and John H. Bailey. The TSE Report recommends that all members of the Audit Committee should be "outside" directors. Although John H. Bailey is an "outside" director, he may be considered a "related" director (see above). However, the Board has waived the independence requirements for John H. Bailey, as it believes that his presence on the Audit Committee facilitates the remaining members understanding of industry and related issues and is in the best interests 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.

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 Chief Executive Officer, reviews the compensation of any other officer or senior employee.

The Board has not, as yet, established a Corporate Governance Committee as recommended in the TSE 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.

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 of 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, 2002, the options and other rights to purchase common shares of Envoy consisted of options to purchase 2,487,500 common shares and other contingent rights to purchase up to 2,867,131 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, 2002, options to purchase 2,487,500 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, 2002 (utilizing Canadian dollars):

Class of Optionee	Number of Common Shares Under Options Granted	Exercise Price	Date of Expiry
Geoffrey B. Genovese	200,000	$3.62	December 16, 2002

Geoffrey B. Genovese	100,000	$6.20	August 10, 2004
Geoffrey B. Genovese	150,000	$7.40	March 30, 2005
Tom Wright	20,000	$3.05	June 27, 2006
Tom Wright	150,000	$3.05	October 1, 2006
Tom Wright	150,000	$2.05	November 7, 2006
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
Brian Goodall	100,000	$4.00	November 10, 2003
Stephen Miller	25,000	$4.80	January 23, 2006
Other	20,000	$4.10	July 22, 2003
	325,000	$4.00	November 10, 2003
	70,000	$3.90	March 7, 2004
	60,000	$4.70	April 22, 2004
	12,500	$7.50	May 10, 2004
	115,000	$6.20	August 10, 2004
	10,000	$7.70	November 24, 2004
	60,000	$7.40	March 30, 2005
	150,000	$7.40	April 11, 2005
	165,000	$8.15	October 1, 2005
	380,000	$3.05	June 27, 2006
Total	2,512,500		

The following table sets forth shares owned by the Chairman and Chief Executive Officer of Envoy and the four other most highly compensated officers who served as executive officers of the Corporation as of January 31, 2002 (the "Named Executive Officers"):

Identity of Person	Amount Owned	Percent of Class
Geoffrey B. Genovese	1,251,606	6.1%
Tom Wright	20,000	0.09%
J.Joseph Leeder	Nil	Nil
Brian Goodall	209,390	1.0%
Stephen Miller	3,000	0%
Chetan Mathur	488,805	2.4%

Other Rights

Pursuant to the acquisition agreements in connection with Envoy's acquisition of Hampel Stefanides, certain executive officers of Hampel Stefanides have the

right to receive up to an additional 258,936 common shares in the aggregate through September 30, 2002 depending upon the financial performance of Hampel Stefanides for the fiscal years included therein.

Pursuant to the acquisition agreement in connection with Envoy's acquisition of Devlin, the principal executive officer of Devlin has the right to receive up to an additional 1,094,890 common shares through September 2002 dependent upon satisfaction of predetermined performance targets of Devlin.

Pursuant to the acquisition agreement in connection with Envoy's acquisition of Sage, certain executive officers of Sage have the right to receive up to an additional 1,358,984 common shares in the aggregate through May 31, 2004 depending upon the financial performance of Sage for the fiscal years included therein.

Pursuant to the acquisition agreement in connection with Envoy's acquisition of IDG, certain executive officers of IDG have the right to receive up to an additional 154,321 common shares in the aggregate through January 1, 2004 depending upon the financial performance of IDG for the fiscal years included therein.

Item 7. Major Shareholders and Related Party Transactions

Ownership of Envoy's securities are recorded on the books of its transfer agent in registered form, however the majority of such shares are registered in the name of intermediaries such as brokerage firms and clearing houses on behalf of their respective clients and in general Envoy does not have knowledge of the beneficial owners thereof, except for the beneficial ownership by officers and directors of Envoy. Envoy is not directly or indirectly owned or controlled by another corporation or entity or by any foreign government. Envoy is not a party to any arrangement, and does not know of any other arrangements, the operation of which may at a subsequent date result in a change in control of Envoy.

As of January 31, 2002, Envoy had an authorized share capital of 50,000,000 common shares without par value, of which 20,426,550 shares were issued and outstanding.

The following table sets forth certain information regarding the ownership of outstanding common shares of Envoy as of January 31, 2002 with respect to each person known by Envoy to be the owner either of record or beneficially of more than 5% of the issued and outstanding common shares of Envoy. As used in this table, "beneficial ownership" refers to the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date of this Form 20-F through the exercise of any option, warrant or right. Common shares subject to options, warrants or rights which are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options, warrants or rights, but are not deemed outstanding for computing the ownership percentage of any other person.

Identity of Person or Group	Amount Owned	Percent of Class
CDS & Co.(1) ______________ NCI Account P.O. Box 1038 Station A 25 The Esplanade	16,521,797	76.6%

Toronto, Ontario M5W 1G5

Cede & Co.(1) ______________ P.O. Box 20 Bowling Green Station New York, NY 10274 USA	2,762,223	8.0%
Geoffrey B. Genovese(2)	1,251,606	6.1%

(1) CDS & Co. and Cede & Co., respectively, are the record holders of these shares and in general the ultimate beneficial owners of these shares are not known to Envoy.

(2) Includes common shares held by family members.

See also Item 6.E."Share Ownership" for information regarding outstanding options to purchase 2,487,500 common shares and certain other rights to purchase up to 2,867,131 common shares of Envoy.

Under the applicable Canadian provincial securities laws, insiders (generally officers and directors of the Registrant and its subsidiaries) are required to file individual insider reports of changes in their ownership in the Registrant's securities within 10 days following any trade in Envoy's securities. Copies of such reports are available for public inspection at the offices of the British Columbia Securities Commission, Suite 1100, 865 Hornby Street Vancouver, British Columbia V6Z 21-14 (telephone 604/660-4800), at the offices of the Alberta Securities Commission, 410-300 5th Avenue, S.W., Calgary, Alberta T2P 3C4 (telephone 403/297-6454), at the offices of the Quebec Securities Commission, Stock Tower Exchange, 800 Victoria Square, Montreal, Quebec M42 1G3 (telephone 514/940-2150) and at the offices of the Ontario Securities Commission, 20 Queen Street West, 18th Floor, Toronto, Ontario M5H 358 (telephone 416/597-0681).

Item 8. Financial Information

See Item 17 & Item 18 "Financial Statements".

Item 9. The Offer and Listing

A. Offer and listing details

Envoy's common shares are listed for trading on the Toronto Stock Exchange (the "TSE") under the symbol "ECG" and on the Nasdaq Small Cap Market ("Nasdaq") under the symbol "ECGI". The common shares began trading on Nasdaq on June 6, 2000 and on the TSE on September 3, 1997. From March 1984 until September 2, 1997 Envoy's shares traded on the Vancouver Stock Exchange.

The following table sets forth the reported high and low sale prices in Canadian dollars for the common shares on the TSE for the fiscal, quarterly and monthly periods indicated.

	High	Low

Fiscal 1999	9.20	3.40
Fiscal 2000		
First Quarter	8.95	4.80
Second Quarter	10.30	6.70
Third Quarter	10.35	6.00
Fourth Quarter	8.70	6.90
Fiscal 2001		
First Quarter	8.75	3.01
Second Quarter	6.65	3.05
Third Quarter	4.99	3.04
Fourth Quarter	3.49	2.10
For the month ending		
January 31, 2002	2.25	1.56
December 31, 2001	2.90	1.80
November 30, 2001	2.20	1.45
October 31, 2001	2.25	1.55
September 29, 2001	2.96	2.16
August 31, 2001	3.15	2.25

The following table sets forth the reported high and low sale prices in US dollars of trading for the common shares as reported on Nasdaq for the fiscal, quarterly and monthly periods indicated.

	High	Low
Fiscal 2000		
Second Quarter	10.50	5.50
Third Quarter	6.00	4.56
Fourth Quarter	5.81	4.34
Fiscal 2001		
First Quarter	5.88	1.88
Second Quarter	4.56	1.97
Third Quarter	3.25	1.75

Fourth Quarter	2.25	1.40
For the month ending		
January 31, 2002	1.42	.97
December 31, 2001	1.85	1.10
November 30, 2001	1.33	0.93
October 31, 2001	1.43	1.00
September 29, 2001	1.94	1.41
August 31, 2001	2.25	1.48

On January 31, 2002, the closing price of the common shares as reported on the TSE was $1.66 Cdn., and on Nasdaq was US$1.04. As of January 31, 2002, there were 20,426,550 outstanding common shares of Envoy of which 17,625,316 were held of record by 60 Non-U.S. residents and 2,801,234 of which were held of record by 121 U.S. residents. The foregoing information regarding the number and the country of residence of Envoy's shareholders does not reflect those shareholders whose shares are being held of record by brokerage clearing houses and in general the ultimate beneficial owners of these shares are not known to Envoy.

Effective as of May 1, 1999, Envoy purchased all of the outstanding shares of Watt International in exchange for cash and 100,000 common shares of Envoy. The 100,000 shares of Envoy are being held in escrow and will be released in part to the beneficial owner from time to time until June 17, 2002. The periodic release of the escrowed shares is conditioned on the performance of a 3-year strategic alliance agreement between Watt International and Deuteronomy Inc., a Toronto-based provider of retail and manufacturing consulting services, the principal of which is Donald G. Watt, a Director of Envoy. The purpose of the escrow arrangement is to restrict transferability of the shares pending the period of the agreement. The 100,000 escrow shares are reflected as issued and outstanding share capital of Envoy from and after the closing of the Watt International acquisition.

See Item 6.E. with respect to "Share Ownership" for information regarding outstanding options to purchase 2,487,500 common shares and certain other rights to purchase up to 2,867,131 common shares of Envoy.

B. Plan of distribution

"Not applicable"

C. Markets

See above section A. "Offer and listing details".

D. Selling Shareholders

"Not applicable"

E. Dilution

"Not applicable"

F. Expenses of the issue

"Not applicable"

Item 10. Additional Information

A. Share Capital

"Not applicable"

B. Memorandum and articles of association

Envoy's memorandum and articles of association were previously filed with our registration statement on Form 20-f dated April 20, 2000.

C. Material Contracts

"Not applicable"

D. Exchange Controls and Other Limitations Affecting Security Holders

There is no governmental law, decree or regulation in Canada that restricts the export or import of capital, or that affects the remittance of dividends, interest or other payments to a non-resident holder of common shares of Envoy, other than withholding tax requirement. See Item 10.E. "Taxation."

There is no limitation imposed by the laws of Canada, the laws of Ontario or British Columbia or by the charter or other constituent documents of Envoy on the right of a non-resident to hold or vote common shares of Envoy, other than as provided in the Investment Canada Act (Canada) (the "Investment Act"). The following discussion summarizes the material provisions of the Investment Act which relate to the acquisition by a non-resident of common shares of Envoy. This summary is not a substitute for independent advice from an investor's own advisor, and it does not take into account any future statutory or regulatory amendments.

The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is not a "Canadian" as defined in the Investment Act (a "non-Canadian"), unless after review the minister responsible for the Investment Act (the "Minister') is satisfied that the investment is likely to be of net benefit to Canada. An investment in common shares of Envoy by a non-Canadian, other than a WTO investor (as defined in the Investment Act) at any time Envoy is not controlled by a WTO investor, is

reviewable under the Investment Act if the investment is to acquire control of Envoy and the value of the assets of Envoy is over $5,000,000 Cdn. for a direct acquisition and over $50,000,000 Cdn. for an indirect acquisition or if an order for review is made by the Federal Cabinet on the grounds that the investment relates to Canada's cultural heritage or national identity. An investment in common shares of Envoy by a WTO investor, or by a non-Canadian at any time Envoy is controlled by a WTO investor, is reviewable under the Investment Act if the investment is to acquire control of Envoy and the value of the assets of Envoy is not less than Cdn. $150,000,000 Cdn. in terms of "constant 1992 dollars", which for 2002 is $218,000,000 Cdn. A non-Canadian would acquire control of Envoy for the purposes of the Investment Act if such investor acquired a majority of the common shares of Envoy unless it could be established that, on the acquisition, Envoy was not controlled in fact by the acquiror through the ownership of common shares.

Certain transactions relating to common shares of Envoy would be exempt from the Investment Act including:

(a) an acquisition of common shares of Envoy by a person in the ordinary course of that person's business as a trader or dealer in securities,

(b) an acquisition of control of Envoy in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provision of the Investment Act,

(c) an acquisition of control of Envoy by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of Envoy through the ownership of common shares, remained unchanged,

(d) an acquisition of voting interests by any person in the ordinary course of a business carried on by that person that consists of providing, in Canada, venture capital on terms and conditions not inconsistent with such terms and conditions as may be fixed by the Minister, and

(e) an acquisition of control of a Canadian business for the purpose of facilitating its financing and not for any purpose related to the provisions of the Investment Act on the condition that the acquirer divest itself of control within two years after it is acquired or within such longer period as is approved by the Minister.

E. Taxation

The following discussion is intended to be a general summary of certain material Canadian federal income tax considerations applicable to holders of common shares described below and is not intended to be, nor should it be construed to be, legal or tax advice to any particular person, and no opinion or representation with respect to income tax considerations is hereby given or made. It does not take into account any particular party's individual circumstances and does not address consequences peculiar to any party subject to special provisions of Canadian income tax law. Each person should consult their own tax advisors with respect to the tax consequences of an investment in the common shares in their own particular circumstances.

The following summary is based upon the current provisions of the Income Tax Act (Canada) (the "ITA") and the regulations thereunder and the Canada-United States Income Tax Convention (1980), as amended (the "Convention"), all proposed amendments to the ITA and the regulations thereunder and the Convention publicly announced by the Department of Finance, Canada prior to

the date hereof, and the current published administrative policies and assessing practices of the Canada Customs and Revenue Agency.Except for the foregoing, this summary does not take into account or anticipate any changes in the law or the Convention or the administrative policies or assessing practices of the Canada Customs and Revenue Agency whether by legislative, governmental or judicial action or decision and does not take into account or anticipate provincial, territorial or foreign tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations described herein.

The summary discusses the principal Canadian federal income tax considerations under the ITA and the regulations thereunder generally applicable to purchasers of common shares who at all times: (i) for purposes of the ITA, are not, have not been and will not be or be deemed to be resident in Canada while they held or hold common shares, deal at arm's length with Envoy, are not affiliated with Envoy, hold their common shares as capital property, do not use or hold, and will not and will not be deemed to use or hold their common shares in, or in the course of carrying on a business in Canada, and are not "financial institutions" for the purposes of the mark-to-market rules, and (ii) for purposes of the Convention, are residents of the U.S. and not residents of Canada and will not hold their common shares as part of the business property of, or so that their common shares are effectively connected with, a permanent establishment in Canada or in connection with a fixed base in Canada (a "U.S. Holder").

Amounts in respect of common shares paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends to a U.S. Holder will generally be subject to Canadian non-resident withholding tax. Such withholding tax is levied at a rate of 25%, which may be reduced pursuant to the terms of the Convention. Under the Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends beneficially owned by a U.S. Holder is 15%. However, where such beneficial owner is a company which owns at least 10% of the voting stock of Envoy, the rate of such withholding is 5%.

A U.S. Holder will not be subject to tax under the ITA in respect of any disposition of common shares (other than a disposition to Envoy) unless at the time of such disposition such common shares constitute "taxable Canadian property" of the holder for purposes of the ITA. If the common shares are listed on a prescribed stock exchange, for the purposes of the ITA, such as the TSE, at the time they are disposed of, they will generally not constitute "taxable Canadian property" of the U.S. Holder at the time of a disposition of such shares unless at any time during the 60-month period immediately preceding the disposition of the common shares, 25% or more of the issued shares of any class or series of Envoy, or an interest therein or an option in respect thereof, was owned by the U.S. Holder, by persons with whom the U.S. Holder did not deal at arm's length or by the U.S. Holder and persons with whom the U.S. Holder did not deal at arm's length. The common shares may also be taxable Canadian property in certain other circumstances. Under the Convention, gains derived by a U.S. Holder from the disposition of common shares that constitute "taxable Canadian property" will generally not be taxable in Canada unless the value of the common shares is derived principally from real property situated in Canada. If the common shares are listed on a prescribed stock exchange for the purposes of the ITA at the time they are disposed of by a U.S. Holder, the U.S. Holder will not be required to comply with the provisions of section 116 of the ITA, which requires notification to be given to the Canada Customs and Revenue Agency when certain property is disposed of.

F. Dividend and paying agents

"Not applicable"

G. Statement by experts

"Not applicable"

H. Documents on Display

Item 11. Quantitative and Qualitative Disclosures About Market Risk

A U.S. Holder will not be subject to tax under the ITA in respect of any disposition of common shares unless at the time of such disposition such common shares constitute "taxable Canadian property" of the holder for purposes of the ITA. If the common shares are listed on a prescribed stock exchange, such as the TSE on which Envoy's shares are listed, for the purposes of the ITA at the time they are disposed of, they will generally not constitute "taxable Canadian property" of the U.S. Holder at the time of a disposition of such shares unless at any time during the five year period immediately preceding the disposition of the common shares, 25% or more of the issued shares of any class or series of Envoy, or an interest therein or an option in respect thereof, was owned by the U.S. Holder, by persons with whom the U.S. Holder did not deal at arm's length or by the U.S. Holder and persons with whom the U.S. Holder did not deal at arm's length. The common shares may also be taxable Canadian property in certain other circumstances. Under the Convention, gains derived by a U.S. Holder from the disposition of common shares that constitute "taxable Canadian property" will generally not be taxable in Canada unless the value of the common shares is derived principally from real property situated in Canada. ve acquisition effective dates.

Except as described below, Envoy does not have any material position or exposure with respect to any market risk sensitive instruments (as defined in Item 11 in Form 20-F).

Interest Rates

Envoy's debt under its lending facility is described in Note 8 to the Notes to our Audited Consolidated Financial Statements of Envoy. The interest on the facility is subject to market fluctuation. However, management believes that its level of debt relative to its assets and shareholders' equity is modest and, consequently, Envoy is not subject to any significant interest rate risk.

Foreign Exchange Rates

Envoy's U.S. and U.K. subsidiaries have historically been self-sustaining operations. Consequently, the cash flow from its U.S. and U.K. subsidiaries has been naturally hedged against its U.S. and U.K. liabilities including future earn-out payments. To the extent that Envoy needs to fund any of these operations in the future we will consider hedging any risks as deemed appropriate. Watt International also earns a significant portion of its revenue in U.S. dollars. Envoy entered into foreign currency contracts to manage its exposure to this foreign currency risk. As at September 30, 2001, Envoy had outstanding foreign currency contracts to sell US$4,689,000 in

exchange for Canadian dollars over a period of twelve months at a weighted average exchange rate of $1.5407 Cdn.

Credit risk

Envoy manages its credit risk with respect to accounts receivable by dealing with primarily large creditworthy customers and by billing whenever possible in advance of rendering services or making commitments. Management believes that Envoy is not subject to significant concentration of credit risk. As at September 30, 2001, Envoy had one customer, which represented 18% of accounts receivable. (No customers exceeded 10% of accounts receivable as at September 30, 2000).

B. Interest of management in certain transactions

Except as disclosed above, no director or executive officer, and no relative or spouse of the foregoing persons (or relative of such spouse) who has the same house as such person or is an executive officer or director of any parent or subsidiary of Envoy, has, or during the last fiscal year of Envoy had, any material interest, direct or indirect, in any transactions, or in any proposed transaction, which in either such case has materially affected or will materially affect Envoy. During the last fiscal year of Envoy, no director, executive officer or associate of any such person has been indebted to Envoy.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Deliquencies

A. There has been no material default in the payment of principal, interest, a sinking or purchase fund installment.

B. There is no preferred stock of Envoy or any of its significant subsidiaries and accordingly there has been no material arrearage in the payment of dividends or any other material delinquency not cured within 30 days, with respect to any class of preferred stock of Envoy or any of its significant subsidiaries.

Item 14.

Material Modifications to the Rights of Security Holders and Use of Proceeds

A. There have been no material modifications in the constituent instruments defining any class of registered securities of Envoy.

B. There has been no material limitation or qualification of the rights evidenced by any class of registered securities of Envoy by the issuance or modification of any other class of securities of Envoy.

C. There has been no material withdrawal or substitution of assets securing any class of registered securities of Envoy.

D. Not applicable.

E. Not applicable.

Item 15. Reserved

Not applicable.

Item 16. Reserved

Not applicable.

PART III

Item 17. Financial Statements

Envoy has elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements

(a)	Envoy Communications Group Inc.	F-1
(i)	Auditors' Report on the financial statements for the year ended September 30, 2001 and 2000	F-2
(ii)	Consolidated Balance Sheets as at September 30, 2001 and 2000	F-3
(iii)	Consolidated Statements of Operations for the years ended September 30, 1999, 2000 and 2001	F-4
(iv)	Consolidated Statements of Retained Earnings for the years ended September 30, 1999, 2000 and 2001	F-5
(v)	Consolidated Statements of Cash Flows for the years ended September 30, 1999, 2000 and 2001	F-6

(vi) Summary of Significant Accounting Policies F-7

(vii) Notes to Consolidated Financial Statements F-12

Item 19. Financial Statements and Exhibits

(1) Envoy Communications Group Inc.

(i) Auditors' Report on the financial statements for the year ended September 30, 2001 and 2000

(ii) Consolidated Balance Sheets as at September 30, 2000 and 2001

(iii) Consolidated Statements of Operations for the years ended September 30, 1999, 2000 and 2001

(iv) Consolidated Statements of Retained Earnings for the years ended September 30, 1999, 2000 and 2001

(v) Consolidated Statements of Cash Flows for the years ended September 30, 1999, 2000 and 2001

(vi) Summary of Significant Accounting Policies

(vii) Notes to Consolidated Financial Statements

(b) Exhibit 1 -- By-Law No. 1 of Envoy (as amended on May 2, 2000) & Articles of Incorporation. Previously filed on May 15, 2000 with the annual report.

Exhibit 2 -- Not Applicable

Exhibit 3 -- Not Applicable

Exhibit 4 -- Not Applicable

Exhibit 5 -- Not Applicable

Exhibit 6 -- Not Applicable

Exhibit 7 -- Not Applicable

Exhibit 8 -- Subsidiaries

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
The Communique Group 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
Watt Russell (USA) Inc.	75	Delaware
John Street Inc.	65	Ontario

Exhibit 9 -- Not Applicable

Exhibit 10 -- Not Applicable

Consolidated Financial Statements
(Expressed in Canadian dollars)

ENVOY COMMUNICATIONS GROUP INC.

Years ended September 30, 2001, 2000 and 1999

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Auditors' Report to the shareholders

We have audited the consolidated balance sheets of Envoy Communications Group Inc. as at September 30, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for each of the years in the three-year period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the years ended September 30, 2001 and 2000, we conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for the year ended September 30, 1999, we conducted out audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2001 in accordance with

Canadian generally accepted accounting principles.

KPMG
Chartered Accountants
Toronto, Canada
November 23, 2001

ENVOY COMMUNICATIONS GROUP INC.
Consolidated Balance Sheets
(In Canadian dollars)

September 30, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash	$ 21,781,809	$ 7,105,418
Restricted cash (note 4)	158,500	456,462
Accounts receivable (note 3)	26,940,137	34,234,974
Income taxes recoverable	230,389	-
Future income taxes	712,000	-
Prepaid expenses	1,315,009	1,540,159
	51,137,844	43,337,013
Restricted cash (note 4)	-	375,875
Capital assets (note 6)	11,533,736	10,448,625
Goodwill and other assets (note 7)	50,356,502	47,179,760
Future income taxes	822,156	966,715
	$ 113,850,238	$ 102,307,988
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 38,728,210	$ 24,247,075
Income taxes payable	-	1,190,313
Deferred revenue	300,071	1,044,873
Amounts collected in excess of pass-through costs incurred	1,574,407	2,307,047
Current portion of long-term debt (note 8)	10,965,089	2,848,430
	51,567,777	31,637,738
Long-term debt (note 8)	963,076	7,983,449
Shareholders' equity:		

Share capital (note 9)	54,883,305	54,597,762
Retained earnings	5,603,200	8,403,367
Cumulative translation adjustment	832,880	(314,328)
	61,319,385	62,686,801
Subsequent events (note 2(f))		
Commitments (note 12)		
Contingencies (note 2)		
Reconciliation to United States accounting principles (note 15)		
	$ 113,850,238	$ 102,307,988

See accompanying notes to consolidated financial statements.
On behalf of the Board:

------------------------------ Director

------------------------------ Director

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ENVOY COMMUNICATIONS GROUP INC.
Consolidated Statements of Operations
(In Canadian dollars)

Years ended September 30, 2001, 2000 and 1999

	2001	2000	1999
Net revenue	$ 80,792,381	$ 58,606,235	$ 41,787,125
Operating expenses:			
Salaries and benefits	53,653,694	35,132,814	25,710,153
General and administrative	15,380,269	10,769,853	6,918,465
Occupancy costs	4,754,875	2,552,854	1,878,090
	73,788,838	48,455,521	34,506,708
Earnings before depreciation, interest expense, income taxes and goodwill amortization	7,003,543	10,150,714	7,280,417
Depreciation	2,866,679	1,986,691	1,444,110
Interest expense	743,600	407,473	346,515

	2001	2000	1999
Earnings before income taxes, goodwill amortization and unusual items	3,393,264	7,756,550	5,489,792
Unusual items (note 11)	1,917,334	-	-
Earnings before income taxes and goodwill amortization	1,475,930	7,756,550	5,489,792
Income tax expense, excluding the undernoted (note 10)	1,259,731	3,252,354	2,002,995
Impact of tax rate changes (note 10)	100,000	-	-
Earnings before goodwill amortization	116,199	4,504,196	3,486,797
Goodwill amortization, net of income tax recovery of $24,000 (2000 - $24,000; 1999 - $11,000)	3,011,571	1,593,769	610,034
Net earnings (loss)	$ (2,895,372)	$ 2,910,427	$ 2,876,763
Net earnings (loss) per share (note 9(g)):			
Basic	$ (0.14)	$ 0.15	$ 0.20
Fully diluted	(0.14)	0.15	0.20
Earnings per share before goodwill amortization:			
Basic	0.01	0.24	0.24
Fully diluted	0.01	0.24	0.24

See accompanying notes to consolidated financial statements.

ENVOY COMMUNICATIONS GROUP INC.
Consolidated Statements of Retained Earnings
(In Canadian dollars)

Years ended September 30, 2001, 2000 and 1999

	2001	2000	1999
Retained earnings, beginning of year	$ 8,403,367	$ 5,492,940	$ 2,682,142
Gain (loss) on redemption of shares			

(note 9(d) and (f))	95,205	-	(65,965)
Net earnings (loss)	(2,895,372)	2,910,427	2,876,763
Retained earnings, end of year	$ 5,603,200	$ 8,403,367	$5,492,940

See accompanying notes to consolidated financial statements.

ENVOY COMMUNICATIONS GROUP INC.
Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended September 30, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net earnings (loss)	$ (2,895,372)	$ 2,910,427	$ 2,876,763
Items not involving cash:			
Future income taxes	(567,441)	(285,344)	76,000
Depreciation	2,866,679	1,986,691	1,444,110
Goodwill amortization	3,035,571	1,617,769	621,034
Amortization of deferred financing charges	65,936	9,990	-
Net change in non-cash working capital balances:			
Restricted cash	297,962	-	-
Accounts receivable	7,389,275	1,823,856	(1,395,987)
Prepaid expenses	(174,654)	124,424	(397,950)
Accounts payable and accrued liabilities	12,440,922	(10,519,909)	229,132
Income taxes payable	(1,145,133)	(787,622)	1,794,028
Deferred revenue	(758,380)	1,044,873	-
Amounts collected in excess of pass-through costs incurred	(777,930)	518,410	(3,656,333)
Other	159,003	(126,812)	46,284
Net cash provided by (used in) operating activities	19,936,438	(1,683,247)	1,637,081
Cash flows from financing activities:			
Long-term debt	8,137,183	5,198,442	5,000,000
Long-term debt repayments	(8,097,536)	(5,497,140)	(1,410,467)
Issuance of common shares for cash	383,670	10,939,807	1,361,172
Redemption of common shares	(1,295,475)	-	(65,965)
Reduction (increase) in restricted cash	394,625	(277,330)	187,718
Net proceeds from special warrant issue	-	-	16,192,731

Other	190,143	-	-
Net cash provided by (used in) financing activities	(287,390)	10,363,779	21,265,189
Cash flows from investing activities:			
Acquisition of subsidiaries, net of cash acquired (bank indebtedness assumed) of $214,179 (2000 - $(941,385); 1999 - $5,919,627)	(1,669,168)	(14,640,994)	(8,416,977)
Purchase of capital assets	(3,756,134)	(2,428,228)	(2,017,796)
Increase in other assets	-	(67,356)	(20,000)
Net cash used in investing activities	(5,425,302)	(17,136,578)	(10,454,773)
Change in cash balance due to foreign exchange	452,645	261,010	(267,201)
Increase (decrease) in cash	14,676,391	(8,195,036)	12,180,296
Cash, beginning of year	7,105,418	15,300,454	3,120,158
Cash, end of year	$ 21,781,809	$ 7,105,418	$ 15,300,454
Cash flow from operations per share (note 9(g)):			
Basic	$ 0.12	$ 0.33	$ 0.34
Fully diluted	0.12	0.33	0.34
Supplemental cash flow information:			
Interest paid	$ 704,604	$ 407,474	$ 334,229
Income taxes paid	3,407,801	3,489,185	68,774
Supplemental disclosure of non-cash transactions:			
Shares issued for non-cash consideration	$ 3,908,156	$ 6,850,311	$ 3,691,800

See accompanying notes to consolidated financial statements.

ENVOY COMMUNICATIONS GROUP INC.
Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended September 30, 2001, 2000 and 1999

The Company, continued under the Business Corporations Act (Ontario), with operations in the United States, the United Kingdom, Continental Europe and Canada, provides integrated marketing and communication services. The core disciplines are: advertising, branding and digital professional services, which include strategy, creative design and technology infrastructure services necessary to build and maintain successful e-businesses.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, which vary in certain significant respects from generally accepted accounting principles in the United States. A description of the significant differences, as applicable to the Company, is included in note 15.

Certain of the comparative figures have been reclassified to conform with the current year's financial statement presentation.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, collectively known as Envoy Communications Group Inc. Intercompany balances and transactions are eliminated on consolidation.

Significant subsidiaries are as follows:

Company	% of ownership	Jurisdiction of incorporation
Communique Incentives Inc.	100	Ontario
The Communique Group Inc.	100	Ontario
Promanad Communications 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

Effective October 1, 2000, Promanad Communications Inc. was amalgamated with The Communique Group Inc.

Effective July 2001, the Company established John Street Inc.

(c) Use of estimates:

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

(d) Capital assets:

Capital assets are recorded at cost and are depreciated over their estimated useful lives as follows:

Asset	Basis	Rate
Audiovisual equipment	Straight line	2 - 5 years
Computer equipment and software	Declining balance	30% - 50%
Furniture and equipment	Declining balance	20%
Leasehold improvements		Over term of leases

(e) Revenue recognition:

The Company presents as net revenue its net commission and fee income earned as compensation for its services. Further, the balance sheet reflects the following:

(i) deferred revenue represents only fees billed and collected in advance of such fees being earned; and

(ii) the reimbursable pass-through costs are included in unbilled accounts receivable.

Net revenue represents the Company'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 short-term in nature.

Fees earned for non-agency 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 earned but not yet billed are included in accounts receivable. 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 expenditures 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.

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.

(f) Goodwill:

Goodwill, being the excess of purchase price over the fair values of net assets acquired, is initially stated at cost with amortization being provided on a straight-line basis ranging from seven to 25 years.

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, movement in major clients and key client service personnel, changes in client relationships and general economic conditions. Significant changes in these factors could result in a permanent impairment of goodwill.

Goodwill is considered to be impaired if the future anticipated undiscounted operating cash flows from the acquired businesses are less than the carrying value of the goodwill. These cash flow projections require management to make certain assumptions regarding future revenue and expenses. When impairment is determined, the related loss is charged to earnings and is measured by the excess of the carrying value of the goodwill over its fair value based on estimated discounted future operating cash flows. The impact of such write-downs on the amortization period is simultaneously assessed. The Company believes there has been no impairment in the value of goodwill.

(g) Foreign currency translation:

The financial statements of the Company's foreign subsidiaries, all of which are self-sustaining operations, are translated using the current rate method, whereby the assets and liabilities of such foreign operations are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and included as a separate component of shareholders' equity.

In respect of the Company's and its subsidiaries' foreign currency transactions, at the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in earnings in the current year. However, unrealized gains or losses on long-term debt that is designated as a hedge of investments in foreign subsidiaries are deferred and recorded as a separate component of shareholders' equity.

The Company used derivative financial instruments to manage risks from fluctuations in foreign exchange rates. These instruments are foreign exchange forward contracts, and are used only for risk management purposes and are designated as hedges of accounts receivable and future cash flows. The Company accounts for these financial instruments as hedges and, as a result, the carrying values of the financial instruments designated as hedges of future cash flows are not adjusted to reflect their current market values.

(h) Income taxes:

Effective October 1, 2000, the Company was required to adopt on a retroactive basis the new accounting standard of The Canadian Institute of Chartered Accountants ("CICA") for income taxes. Under this accounting standard, the Company is not required to restate its comparative figures for prior years.

Under this new standard, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be received or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

Prior to adoption of this new standard, income tax expense was determined using the deferred method. Under this method, deferred income tax expense

was based on differences between the accounting and tax incomes and was measured at tax rates in effect in the year the differences originated. The benefits of tax losses were not recognized at the time they were incurred unless there was virtual certainty of realization.

There is no cumulative effect as of October 1, 2000 of this change in accounting policy.

As at October 1, 2000, the Company's temporary differences are principally in respect of deductible share issue costs that were recorded directly in capital stock rather than as a credit to income tax expense. As a result of the announcements by the government to introduce legislation to reduce income taxes over the next four years, the Company was required to revalue its future tax assets during the year by $100,000. Under the CICA's new accounting standards, the Company is required to record this item as an adjustment to income tax expense, notwithstanding the fact that such amounts were not previously reflected in income tax expense when recorded.

(i) Stock-based compensation:

The Company has a stock option plan for key employees and officers. All stock options issued under this plan have an exercise price equal to or greater than the fair market value of the underlying common shares on the date of the grant. The Company does not record compensation expense on the grant or modification of options under the Plan. The stock option plan is described in note 9(e).

(j) Deferred financing charges:

The costs of obtaining bank and other debt financing are deferred and amortized on a straight-line basis over the effective life of the debt to which they relate.

2. Acquisition of subsidiaries:

(a) Effective January 1, 2001, the Company acquired 100% of the outstanding shares of The International Design Group, a Toronto-based international retail planning and design firm. Under the terms of the acquisition, the initial purchase price, which consisted of $1,090,000 in cash consideration and 61,728 common shares of the Company with a fair value of $284,332, was paid upon closing. Additional consideration may be paid over a three-year period if certain performance milestones are achieved for the 12-month periods ending December 31. 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. The acquisition has been accounted for using the purchase method of accounting.

The fair value of the net assets acquired was $1,198,684, excluding cash acquired of $214,179. The net assets acquired consisted of working

capital and fixed assets. The resulting excess purchase price over the fair value of the net assets acquired of $336,382 was allocated to goodwill and is being amortized over 25 years.

(b) Effective July 1, 2000, the Company acquired 100% of the outstanding shares of Gilchrist Brothers Ltd. ("Gilchrist"), a United Kingdom-based digital imaging and design firm, in exchange for cash consideration of $3,235,798 (british pounds 1,460,000) and a $5,325,215 (british pounds 2,402,750) non-interest bearing promissory note, repayable in semi-annual instalments over the next two years to June 30, 2002. The present value of the promissory note of $5,067,763 (british pounds 2,261,486), together with the initial cash consideration, represent the total purchase price. At September 30, 2001, $2,689,781 (british pounds 1,156,200) (2000 - $4,564,856 (british pounds 2,059,674)) is included in long-term debt (note 8). The acquisition has been accounted for using the purchase method of accounting and the resulting goodwill is being amortized over 20 years. The fair value of the net assets acquired at July 1, 2000 was as follows:

Non-cash working capital	$ 1,046,094
Capital assets	2,001,319
Long-term debt	(2,165,325)
Net assets	882,088
Total consideration, including bank indebtedness assumed	8,593,970
Excess of purchase price over fair value of net assets acquired allocated to goodwill	$ 7,711,882

(c) Effective June 1, 2000, the Company, acquired 100% of the outstanding shares of Sage Information Consultants Inc. ("Sage"), a digital professional service firm operating in the United States and Canada, in exchange for cash consideration of $6,750,000 and the issuance of 503,145 common shares of the Company with a fair value of $4,000,000.

During 2001, the Company reached an agreement with the former owner of Sage to extend his indemnification of receivables at the acquisition date to also cover receivables arising out of contracts in progress on the date of acquisition. Under this indemnification, the Company is owed $1,714,047 as at September 30, 2001 (note 5).

In June 2001, the Company determined that additional consideration was payable based on Sage's operating results for the twelve months ended May 31, 2001 and agreed to amend the terms of the purchase agreement with respect to the payment of the earnout for this period. Under the amended terms, the Company agreed to pay $1,392,154 in cash consideration, rather than the issuance of cash and shares under the original terms. The excess of the cash consideration payable over the fair value of the cash and

shares otherwise issuable amounted to $362,485 and is required to be expensed under generally accepted accounting principles. As a result, only $1,029,669 of the amount payable has been recorded as additional goodwill. The Company may be required to pay additional consideration, to a maximum amount of $10,107,846 in cash and 1,358,984 common shares, based on the attainment of certain operating results over each of the next three years to May 31, 2004.

The acquisition has been accounted for using the purchase method of accounting and the resulting goodwill is being amortized over 10 years. Future consideration will be accounted for as goodwill at the time it becomes payable. The fair value of the net assets acquired at June 1, 2000 was as follows:

Non-cash working capital	$ 104,663
Capital assets	141,578
Future income taxes	53,000
Net assets	299,241
Total consideration, including bank indebtedness assumed, June 1, 2000	12,270,724
Additional cash consideration	1,029,669
Excess of purchase price over fair value of net assets acquired allocated to goodwill	$ 13,001,152

(d) Effective May 1, 1999, the Company acquired substantially all of the assets and the liabilities of Watt International Inc. (formerly The Watt Design Group Inc.) ("Watt"), a packaging and retail environment design business, in exchange for cash consideration of $6,700,000. Costs associated with the acquisition of $470,000 were satisfied by the issuance of 100,000 common shares of the Company with a fair value of $470,000. The acquisition has been accounted for using the purchase method of accounting and the resulting goodwill is being amortized over 25 years. The fair value of the net assets acquired at May 1, 1999 was as follows:

Non-cash working capital	$ 4,054,000
Capital assets	939,000
Net assets	4,993,000
Total consideration, less cash acquired	7,569,000
Excess of purchase price over fair value of net assets acquired allocated to goodwill	$ 2,576,000

(e) Effective January 1, 1999, the Company acquired 100% of the outstanding shares of Devlin Multimedia Inc. ("Devlin"), an interactive communication services business, in exchange for initial cash consideration of $575,000 and the issuance of 225,060 common shares of the Company with a fair value of $925,000. The Company may be required to pay additional consideration, to a maximum of $4,500,000, based on Devlin's attainment of certain operating results to December 31, 2001. However, management believes the likelihood of paying this contingent consideration is remote. The acquisition has been accounted for using the purchase method of accounting and the resulting goodwill is being amortized over seven years. Future consideration, if any, will be accounted for as additional goodwill at the time it becomes payable.

The fair value of the net assets acquired at January 1, 1999 was as follows:

Non-cash working capital	$ 9,000
Capital assets	158,000
Long-term debt	(88,000)
Net assets	79,000
Total consideration, including bank indebtedness assumed	1,613,000
Excess of purchase price over fair value of net assets acquired allocated to goodwill	$ 1,534,000

(f) Effective October 1, 1998, the Company acquired 100% of the outstanding shares of Hampel Stefanides, Inc. ("Hampel Stefanides"), a full-service advertising and commercial design agency operating in the United States, in exchange for initial cash consideration of $5,587,349 (U.S. $3,649,000) and the issuance of 581,395 common shares with a fair value of $2,296,800 (U.S. $1,500,000). In September 1999, the Company recorded additional consideration of $4,134,002. The consideration was paid on November 4, 1999 by way of a cash payment of $1,703,802 and the issuance of 450,040 common shares of the Company with a fair value of $2,430,200. During fiscal 2000, additional cash consideration of $554,788 (U.S. $375,000) was paid. Additional cash consideration of $375,875 (U.S. $250,000) is included in accounts payable and accrued liabilities as at September 30, 2001 and has been included as part of total consideration.

In September 2000, the Company determined that additional consideration was owing, in the form of cash and shares of the Company, based on Hampel Stefanides's operating results for the year ended September 30, 2000 and such amount has been recorded as at September 30, 2000. The aggregate consideration of $5,348,600 was paid on November 1, 2000 by way of a cash payment of $1,724,776, which is included in accounts payable and accrued

liabilities, and the issuance of 444,641 common shares of the Company with a fair value of $3,623,824, which were included in share capital as at September 30, 2000.

In December 2001, the Company determined that additional consideration was owing in the form of cash and shares, based on Hampel Stefanides's operating results for the year ended September 30, 2001 and such amount has been recorded as at September 30, 2001. The aggregate consideration of $2,909,150 consists of cash consideration of $1,900,929, which is included in accounts payable and accrued liabilities, and the issuance of 466,769 common shares of the Company with a fair value of $1,008,221, which are included in share capital as at September 30, 2001 as shares to be issued (note 9(a)).

The Company may be required to pay additional consideration, to a maximum amount of $769,456 (U.S. $487,460) in cash and 258,936 common shares, based on the attainment of operating results to September 30, 2002. Future consideration, if any, will be accounted for as additional goodwill at the time it becomes payable.

The acquisition has been accounted for using the purchase method of accounting and the resulting goodwill is being amortized over 25 years. The fair value of the net liabilities acquired on October 1, 1998 and consideration accounted for to date was as follows:

Non-cash working capital deficiency	$ (6,171,687)
Capital assets	1,676,664
Restricted cash	765,600
Net liabilities	(3,729,423)
Consideration, less cash acquired, September 30, 1999	7,475,961
Additional consideration, September 30, 2000:	
Cash	1,724,776
Issuance of 444,641 common shares	3,623,824
Additional consideration, September 30, 2001:	
Cash	1,900,929
Issuance of 466,769 common shares	1,008,221
Total consideration, less cash acquired, September 30, 2001	15,733,711
Purchase price and fair value of net liabilities acquired allocated to goodwill	$ 19,463,134

(g) Effective June 1, 1998, the Company acquired 100% of the outstanding shares of Promanad Communications Inc. ("Promanad"), a full service advertising agency, in exchange for initial cash consideration of $2,937,142 and the issuance of 119,047 common shares of the Company with a fair value of $500,000. In June 1999, the Company determined that

additional cash consideration of $661,675 and the issuance of 52,514 common shares of the Company with a fair value of $367,598 was payable.

In June 2000, the Company determined that additional consideration was payable based on Promanad's operating results for the twelve months ended May 31, 2000. The consideration was comprised of cash of $678,636 and the issuance of 53,860 common shares of the Company with a fair value of $420,108.

This acquisition was accounted for using the purchase method of accounting and the resulting goodwill is being amortized over 25 years.

The fair value of the net liabilities acquired at June 1, 1998 and consideration accounted for to date was as follows:

Non-cash working capital deficiency	$ (954,000)
Capital assets	522,000
Net liabilities	(432,000)
Consideration, net of cash acquired, September 30, 1999	3,977,415
Additional consideration:	
Cash	678,636
Issuance of 53,860 common shares	420,108
Total consideration, less cash acquired	5,076,159
Purchase price and fair value of net liabilities acquired allocated to goodwill	$ 5,508,159

3. Accounts receivable:

	2001	2000
Trade receivables	$ 20,501,517	$ 25,844,406
Accrued revenue	118,414	2,652,275
Unbilled pass-through costs	6,320,206	5,738,293
	$ 26,940,137	$ 34,234,974

4. Restricted cash:

Restricted cash includes the following:

(a) A trust account established for Communique Incentives Inc. for customer deposits of $158,500 (2000 - $456,462).

(b) At September 30, 2000, $375,875 (U.S. $250,000) bank certificate of

deposit pledged against a letter of credit for a building lease of Hampel Stefanides. There were no amounts outstanding under this letter of credit at September 30, 2001.

5. Related party transactions:

Certain management and administrative costs totalling $685,000 (2000 - $300,000; 1999 - $250,000) were incurred during the year in respect of a company controlled by a director and are recorded at the exchange amount, being the amount agreed to by the related parties. At September 30, 2001, $338,400 (2000 - nil) of such amount was unpaid and was included in accounts payable and accrued liabilities.

Included in accounts receivable as at September 30, 2001 is a net balance of $321,893 owing from the former owner of Sage in respect of indemnified receivables, net of the earnout payment owing by Envoy (note 2(c)).

6. Capital assets:

2001	Cost	Accumulated depreciation	Net book value
Audiovisual equipment	$ 780,919	$ 750,126	$ 30,793
Computer equipment and software	10,704,399	7,575,183	3,129,216
Furniture and equipment	3,967,088	2,714,054	1,253,034
Leasehold improvements	9,700,446	3,209,833	6,490,613
Equipment under capital leases	1,393,849	763,769	630,080
	$ 26,546,701	$ 15,012,965	$ 11,533,736

2000	Cost	Accumulated depreciation	Net book value
Audiovisual equipment	$ 780,918	$ 741,376	$ 39,542
Computer equipment and software	8,860,993	6,107,275	2,753,718
Furniture and equipment	3,346,760	2,158,219	1,188,541
Leasehold improvements	7,900,367	2,314,080	5,586,287
Equipment under capital leases	1,416,437	535,900	880,537
	$ 22,305,475	$ 11,856,850	$ 10,448,625

7. Goodwill and other assets:

	2001	2000
Goodwill, net of accumulated amortization		

of $5,969,743 (2000 - $2,934,156)	$ 49,675,115	$ 46,707,924
Deferred financing charges, net of accumulated amortization of $70,410 (2000 - $9,990)	634,936	192,053
Mortgage receivable	-	200,000
Other	46,451	79,783
	$ 50,356,502	$ 47,179,760

8. Long-term debt:

	2001	2000
Revolving credit facility, with annual interest rates of Canadian prime plus 0% to 0.75% or at banker's acceptance plus 0.50% to 1.00%, U.S. base plus 0% to 0.75% or at U.S. LIBOR plus 0.50% to 1.00% or U.K. LIBOR plus 0.50% to 1.00% (a)	$ 7,841,329	$ -
Revolving credit facility, U.S. prime rate plus 0.125% to 0.250% or at LIBOR plus 1.75% to 2.25% (b)	-	4,727,043
Non-interest bearing promissory note, issued July 1, 2000, repayable in semi-annual instalments over two years to June 30, 2002 (c)	2,689,781	4,564,856
Loan payable to landlord, 3.5% per annum, Due July 1, 2009, repayable in monthly Instalments of $7,665 principal and interest	625,382	694,337
Loan payable to landlord, 0.925% per annum, due January 1, 2003, repayable in monthly instalments of $6,728 principal and interest	100,925	180,379
Loan payable to landlord, 10% per annum, due April 1, 2010, repayable in monthly instalments of $5,999 principal and interest	357,016	-
Capital lease, 12.3% over the lease period, Repayable in quarterly instalments of $60,129 (british pounds 25,330) (2000 - $56,139 (british pounds 25,330)) principal and interest, due January 2003	284,507	459,731
Capital leases, 10.3% to 13.9% over the lease period, repayable in quarterly instalments of $14,950 (british pounds 6,426); (2000 - $43,771 (british pounds 19,750)) principal and interest, due between March 2002 and April 2002	29,225	178,563
Other	-	26,970
	11,928,165	10,831,879
Less current portion	10,965,089	2,848,430
	$ 963,076	$ 7,983,449

(a) During 2001, the Company established an extendable revolving line of credit under which it can borrow funds in either Canadian dollars, U.S. dollars or U.K. Pounds Sterling, provided the aggregate borrowings do not exceed Cdn. $40,000,000. Advances under the line of credit can be used for general corporate purposes (to a maximum of Cdn. $2,000,000) and for financing acquisitions which have been approved by the lenders. The Company used its borrowings under this facility to repay its U.S. dollar revolving credit facility (note 8(b)). Included in the Company's borrowings as at September 30, 2001, are foreign denominated loans of U.S. $1,914,250. As at September 30, 2001, the Company had not drawn upon that portion of the facility available for general corporate purposes.

Each year, the Company can request to have the facility renewed for a subsequent one-year period subject to approval by the lenders. If not renewed, the revolving credit facility becomes a reducing three-year term loan. Interest rates on the facility are variable based on certain leverage ratios and, at September 30, 2001, the effective interest rate was 4.25%. The facility is secured by a general security agreement guarantee against the Company and all of its subsidiaries.

Under the terms of the facility, the Company is required to maintain certain financial ratios. As at September 30, 2001 the Company was not in compliance with one of the debt covenants involving trailing 12 months earnings before taxes, interest, depreciation and amortization and the Company will continue to be in violation of this covenant in fiscal 2002. The lenders have waived the violation of this covenant as of September 30, 2001 and are in discussions with the Company regarding amendments to the covenant calculations going forward. Under the terms of the facility, if the covenants are not met, the lenders can demand repayment of the outstanding borrowings. Accordingly the entire amount of the loan is classified as a current liability based on the lenders ability to accelerate payment.

(b) In 2000, the Company established an $8,000,000 U.S. dollar revolving credit facility and repaid its existing term loan. The term of the facility was two years and could be converted on June 29, 2002, being the second anniversary date, into a three-year term loan. Interest rates on the facility were variable based on certain leverage ratios. At September 30, 2001, the interest rate was 9.5%. The facility was secured by a registered general security agreement guarantee. Under the terms of the debt facility, the Company was required to maintain certain financial ratios. The facility was repaid in 2001 using the Company's new revolving credit facility described in note 8(a).

(c) The non-interest bearing promissory note due on June 30, 2002 in respect of the Gilchrist acquisition (note 2(b)) (the "Gilchrist note") will be refinanced under the Company's revolving credit facility. However, due to a violation of one of the covenants under the facility, the Gilchrist note cannot be presented as long-term debt.

Principal repayments are as follows:

2002, including the amounts borrowed under the revolving credit facility and the Gilchrist note	$ 10,965,089
2003	187,034
2004	113,108
2005	138,152
2006	363,358
Thereafter	161,424
	$ 11,928,165

9. Share capital:

(a) Authorized:
50,000,000 common shares without par value
(2000 - 50,000,000; 1999 - 50,000,000)

Issued:

	2001		2000		1999	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	21,098,222	$54,597,762	18,349,005	$35,613,907	13,231,618	$10,634,371
Common shares issued for cash pursuant to:						
Public offering	-	-	1,533,571	10,128,823	-	-
Stock options exercised	101,000	383,670	214,000	811,100	273,000	873,810
Acquisitions (note 2)	61,728	284,332	557,005	4,420,108	958,969	4,076,544
Repurchase of shares pursuant to share issuer bid	(535,000)	(1,390,680)	-	-	-	-
Special warrants exercised	-	-	-	-	3,300,000	17,111,620
Warrants exercised	-	-	-	-	135,378	487,362

	20,725,950	53,875,084	20,653,581	50,973,938	17,898,965	33,183,707
Shares to be issued in respect of contingent consideration (note 2(f))	466,769	1,008,221	444,641	3,623,824	450,040	2,430,200
Balance, end of year	21,192,719	$54,883,305	21,098,222	$54,597,762	18,349,005	$35,613,907

(b) Public offering:
On June 5, 2000, the Company issued 1,533,571 common shares through a public share offering for gross proceeds of $7.00 per share and aggregate proceeds of $10,734,997. Net proceeds recorded as share capital were $10,128,823 after deducting issue costs of $1,195,965 and recording the related tax recovery of $589,791.

(c) Private placement transaction:
On May 11, 1999, the Company issued 3,300,000 special warrants in a private placement for cash consideration of $5.50 per special warrant and aggregate proceeds of $18,150,000. Net proceeds recorded as share capital, after deducting issue costs of $1,957,269 and the related tax recovery of $918,889, were $17,111,620. On July 30, 1999, the Company filed a final prospectus with certain securities commissions in Canada to qualify 3,300,000 common shares which were issued on the exercise of the special warrants.

(d) Repurchase of shares:
During 2001, pursuant to a normal course issuer bid, the Company repurchased and cancelled 535,000 common shares at an average price of $2.42 per common share for total consideration of $1,295,475. As a result of these repurchases, $95,205 was recorded as a gain on redemption of shares in retained earnings. Under the terms of the normal course issuer bid, the Company may repurchase and cancel up to 10% of the public float to July 26, 2002.

(e) Stock option plan:
The Company has reserved 4,000,000 common shares under its stock option plan. Under the plan, the options are exercisable for one common share and the exercise price of the option must equal the market price of the underlying share at the grant date. Options granted after November 1997 have vesting periods ranging from date of grant and up to five years. Options granted prior to November 1997 vested upon grant. Once vested, options are exercisable at any time until expiry. Expiry dates range between 2001 and 2006.

Details of the options are as follows:

	Number of options	Weighted average exercise price per share
Options outstanding, September 30, 1998	1,555,000	$ 3.60
Options granted	1,116,500	4.86
Options exercised	(273,000)	3.20
Options cancelled	(322,000)	3.75
Options outstanding, September 30, 1999	2,076,500	4.30
Options granted	774,000	7.43
Options exercised	(214,000)	3.79
Options cancelled	(296,000)	4.72
Options outstanding, September 30, 2000	2,340,500	5.33
Options granted	780,000	5.30
Options exercised	(101,000)	3.80
Options cancelled	(340,000)	5.87
Options outstanding, September 30, 2001	2,679,500	5.31
Options exercisable, September 30, 2001	1,491,510	$ 5.07
Options exercisable, September 30, 2000	1,137,673	$ 5.05

The range of exercise prices for options outstanding and options exercisable at September 30, 2001 are as follows:

	Options outstanding			Options exercisable	
Range of exercise price	Number	Weighted average exercise price	Weighted average contractual life	Number	Weighted average exercise price
$ 3.62 - 4.70	1,434,000	$ 3.67	2.63 years	856,668	$ 3.77
6.20 - 8.15	1,245,500	7.20	3.49 years	634,842	6.83

(f) Loss on redemption of shares:
During 1999, the Company paid $65,965 to an employee upon the surrender and cancellation of 97,000 vested stock options. The cash payment represented the excess of the fair value of the options of $332,040 over the aggregate exercise price of $266,075 and has been charged to retained earnings as a loss on redemption of shares.

(g) Net earnings (loss) and cash flows from operations per share:
Earnings (loss) and cash flow figures per share are based on the weighted average number of basic common shares outstanding during the year of 21,160,616 (2000 - 19,156,626; 1999 - 14,750,247) and fully diluted common shares outstanding of 21,160,616 (2000 - 19,156,626; 1999 - 14,750,247).

Basic and fully diluted cash flows from operations per share have been calculated using the cash flows from operating activities, excluding net changes in non-cash working capital balances.

10. Income taxes:

Income tax expense (recovery) for the years ended September 30, 2001, 2000 and 1999 consists of:

	Current	Future	Total
2001	$ 1,927,172	$ (567,441)	$ 1,359,731
2000	3,537,698	(285,344)	3,252,354
1999	1,926,995	76,000	2,002,995

The income tax expense attributable to income from continuing operations differs from the amounts computed by applying the Canadian statutory rates of 42.5% (2000 - 44.1%; 1999 - 44.6%) pre-tax income as a result of the following.

	2001		2000		1999	
Income taxes at statutory rates	$ 627,270	42.5%	$ 3,420,638	44.1%	$ 2,448,447	44.6%
Increase (decrease) in income taxes resulting from:						
Adjustment to future tax assets for substantively enacted changes in tax laws and rates	100,000	6.8	-	-	-	-
Expenses deducted in the accounts which have no corresponding deduction for income taxes						

	665,323	45.1	168,476	2.1	215,548	3.9
Lower basic tax rate on earnings of foreign subsidiaries	(185,524)	(12.6)	(111,815)	(1.4)	-	-
Utilization of previous years' losses	-	-	-	-	(721,000)	(13.1)
Other	152,662	10.4	(224,945)	(2.9)	60,000	1.1
	$ 1,359,731	92.2%	$ 3,252,354	41.9%	$ 2,002,995	36.5%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at September 30, 2001 are presented below:

Future tax assets:	
Capital assets	$ 333,006
Share issuance costs	530,891
Non-capital losses expiring in 2008	712,000
Total gross future tax assets	1,575,897
Future tax liabilities:	
Goodwill	41,741
Total net future tax assets	1,534,156
Less current portion	712,000
	$ 822,156

11. Unusual items:

During the year, the Company announced that it was terminating its discussions in connection with the proposed acquisition of Leagas Delaney. Generally accepted accounting principles require that all costs in connection with the proposed acquisition and the related equity financing need to be expensed in full as of the date of abandonment. Costs include legal, accounting, consulting and other out-of-pocket expenses incurred in the negotiation and preparation of legal documents and preparation of long-form prospectus materials prepared in connection with the abandoned acquisition.

12. Commitments:

(a) The Company has entered into operating lease agreements for office premises and equipment with minimum annual lease payments over the next five years as follows:

2002	$ 4,029,233
2003	3,662,992
2004	3,424,226
2005	3,820,658
2006	3,706,608
	$ 18,643,717

(b) At September 30, 2001, the Company has letters of credit outstanding of $1,952,450 (U.S. $500,000 and british pounds 500,000) (2000 - nil).

13. Financial instruments:

(a) The carrying value and estimated fair values of the Company's financial instruments are as follows:

(i) The carrying amounts of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities and non-interest bearing promissory note approximate their fair values due to the short-term nature of these instruments.

(ii) The fair values of the Company's capital leases and revolving credit facilities approximate their carrying values as they bear interest rates that approximate current market rates. The carrying values of the loans payable to landlords are not significantly different from their fair values.

(iii) The fair value of foreign currency contracts are estimated by obtaining quotes of the amount that the Company would have to pay counterparties to terminate agreements. As at September 30, 2001, the carrying amounts of the contracts were $(104,218) (2000 - $(119,254)) and their fair values were $(189,224) (2000 - $(143,015)).

(b) Risk management activities:

(i) Currency risk:
During 2000, the Company entered into foreign currency contracts to manage certain of its exposures to foreign currency risk on its U.S. dollar receivables and future cash flows. The Company has provided as security all of Watt's assets to support these foreign currency contracts. As at September 30, 2001, the Company had outstanding foreign exchange contracts to sell U.S. $4,689,000 (2000 - U.S. $3,135,000) in exchange for Canadian dollars over a period of

12 months at a weighted average exchange rate of Cdn. $1.5407 (2000 - $1.46).

During 2001, the Company established a $40,000,000 revolving credit facility. The U.S. dollar borrowings under this facility serve as a hedge against the Company's investment in its U.S. operations, managing exposure to foreign currency risk.

The Company's promissory note payable issued in connection with its acquisition of Gilchrist (note 2(b)) serves as a hedge against the Company's investment in its U.K. operations, managing exposure to foreign currency risk.

(ii) Credit risk:

The Company manages its credit risk with respect to accounts receivable by acting as an agent for its customers, by dealing primarily with large creditworthy customers and by billing whenever possible in advance of rendering services. As at September 30, 2001, the Company has one customer, which represents 18% of accounts receivable (2000 - no customers exceeded 10% of accounts receivable).

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its foreign currency contracts. The Company does not obtain collateral or other security to support financial instruments subject to credit risk but mitigates this risk by dealing only with financially sound counterparties and, accordingly, does not anticipate loss for non-performance.

14. Segmented information:

The Company provides integrated marketing communication services to its clients. While the Company has subsidiaries in Canada, the United States, the United Kingdom and Continental Europe, it operates as an international business and has no distinct reportable business segments.

The tables below set out the following information:

(a) The Company's external net revenue by geographic region based on the region in which the customer is located is as follows:

	2001	2000	1999
Net revenue:			
Canada	$ 19,833,117	$ 21,980,668	$ 19,153,216
United States	40,970,400	32,559,550	22,633,909
United Kingdom and Continental Europe	19,988,864	4,066,017	-
	$ 80,792,381	$ 58,606,235	$ 41,787,125

(b) The Company's identifiable assets for each geographic area in which it has operations are as follows:

	2001	2000
Capital assets:		
Canada	$ 7,997,668	$ 7,597,499
United States	1,316,098	805,482
United Kingdom and Continental Europe	2,219,970	2,045,644
	$ 11,533,736	$ 10,448,625

	2001	2000
Goodwill:		
Canada	$ 21,956,307	$ 22,438,433
United States	19,706,227	16,654,008
United Kingdom and Continental Europe	8,012,581	7,615,483
	$ 49,675,115	$ 46,707,924

(c) The Company's external net revenue by type of service is as follows:

	2001	2000	1999
Net revenue:			
Marketing	$ 24,374,986	$ 28,772,421	$ 30,317,254
Design	41,444,289	22,247,353	9,420,744
Technology	14,973,106	7,586,461	2,049,127
	$ 80,792,381	$ 58,606,235	$ 41,787,125

(d) In 2001, the Company had one customer, which represented 13.6% of net revenue. In each of 2000 and 1999, the Company had different customers which represented 11.3% and 10.3% of net revenue, respectively.

15. Reconciliation to United States generally accepted accounting principles:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. Set out below are the material adjustments to net earnings for the years ended September 30, 2001, 2000 and 1999 required in order to conform to U.S. GAAP.

	2001	2000	1999
Net earnings (loss):			
Net earnings (loss) based on Canadian GAAP	$ (2,895,372)	$ 2,910,427	$ 2,876,763
Adjustment to income tax provision (a)	-	-	(721,000)
Stock-based compensation expense (b)	(886,000)	-	(226,965)
Foreign currency contracts, net of income tax recovery of $35,703 (e)	(49,303)	-	-
Net earnings (loss) based on U.S. GAAP	$ (3,830,675)	$ 2,910,427	$ 1,928,798

The following adjustments are required in order to conform shareholders' equity based on Canadian GAAP to shareholders' equity based on U.S. GAAP:

	2001	2000
Shareholders' equity based on Canadian GAAP	$ 61,319,385	$ 62,686,801
Foreign currency contracts, net of income tax recovery of $35,703 (e)	(49,303)	-
Shareholders' equity based on U.S. GAAP	$ 61,270,082	$ 62,686,801

Summary of accounting policy differences:
The areas of material difference between Canadian and U.S. GAAP and their impact on the consolidated financial statements of the Company are set out below:

(a) Income taxes:
Effective October 1, 2000, the Company adopted on a retroactive basis new Canadian accounting standards for income taxes, which now require income taxes to be accounted for using the asset and liability method, consistent with U.S. GAAP. Previously, under Canadian GAAP, the deferral method of providing for income taxes was used.

Under Canadian accounting standards, the Company is not required to restate its comparative figures for prior years and, accordingly, there continue to be differences between Canadian and U.S. GAAP pertaining to income taxes for the year ended September 30, 2000 and 1999. There is no cumulative effect as of October 1, 2000 of this change in accounting policy and there should be no new differences between Canadian and U.S. GAAP with respect to income taxes for periods subsequent to October 1, 2000.

The comparative disclosure required under U.S. GAAP for periods prior to October 1, 2000 are set out below.

The Company's U.S. GAAP income tax expense consists of the following:

	2001	1999
Earnings before income taxes based on U.S. GAAP	$ 6,138,781	$ 4,641,793
Computed income tax expense at basic tax rate of 44.1% (1999 - 44.6%)	$ 2,707,200	$ 2,070,000
Increase (decrease) in income taxes resulting from:		
Non-deductible goodwill amortization	689,500	265,000
Non-deductible stock-based compensation	-	101,000
Lower basic tax rate on earnings of foreign subsidiary	(111,800)	-
Other expenses deducted in the accounts which have no corresponding deduction for income taxes	168,500	217,000
Other	(225,000)	60,000
	$ 3,228,400	$ 2,713,000

(b) Stock-based compensation expense:

U.S. GAAP requires the Company to record compensation expense when modifications are made which extend the lives of options. During the year ended September 30, 2001, the Company extended the life of an individual's option award and has therefore recorded the intrinsic value of the option at the date of the extension as compensation expense.

U.S. GAAP requires that the excess of the fair value of options repurchased by the Company in 1999 over their aggregate exercise price be recorded as compensation expense. Under Canadian GAAP, the excess of $65,965 is charged to retained earnings and, accordingly, there is no adjustment required to shareholders' equity under U.S. GAAP.

In addition, during 1999, the Company granted stock options to non-employees as compensation for services rendered. U.S. GAAP requires that the Company measure compensation cost for these options based on their fair value at the grant date, whereas Canadian GAAP does not require the recognition of compensation expense for such options. The fair value of these options is estimated to be $161,000.

(c) Business combinations:

U.S. GAAP requires the disclosure of the unaudited pro forma U.S. GAAP

consolidated results of operations for the year ended September 30, 2000 giving effect to the acquisition of Gilchrist as if it had occurred as of October 1, 1999 which are as follows:

Net revenue	$ 68,242,235
Net earnings	2,602,527
Basic net earnings per share	0.14
Diluted net earnings per share	0.13

U.S. GAAP requires the disclosure of the unaudited pro forma U.S. GAAP consolidated results of operations for the year ended September 30, 2000 giving effect to the acquisition of Sage as if it had occurred as of October 1, 1999 which are as follows:

Net revenue	$ 63,102,395
Net earnings	950,950
Basic net earnings per share	0.05
Diluted net earnings per share	0.05

Earnings per common share amounts in accordance with U.S. GAAP are based on U.S. GAAP net earnings. The calculation of basic net earnings per share is the same under both Canadian and U.S. GAAP. However, for purposes of calculating diluted net earnings per share, the dilutive effects of outstanding options and warrants is computed by applying the treasury stock method under U.S. GAAP, which is not permitted under Canadian GAAP.

Basic net earnings (loss) per share under U.S. GAAP for the year ended September 30, 2001 is $(0.18) (2000 - $0.15; 1999 - $0.13). Diluted net earnings (loss) per share under U.S. GAAP for the year ended September 30, 2001 is $(0.18) (2000 - $0.15; 1999 - $0.12).

The diluted weighted average number of shares outstanding is calculated as follows:

	2001	2000	1999
Weighted average basic number of shares outstanding	21,160,616	19,156,626	14,750,247
Dilutive effect of:			
Special warrants	-	-	786,575
Warrants	-	75	8,885
Options	102,410	773,276	682,732
Shares to be issued in respect of contingent consideration	466,769	-	-

Weighted average diluted number of shares outstanding	21,729,795	19,929,977	16,228,439

(d) Stock-based compensation disclosures:

The Company measures compensation expense relating to employee stock option plans for U.S. GAAP purposes using the intrinsic value method specified by APB Opinion No. 25, which in the Company's circumstances would not be materially different from compensation expense as determined under Canadian GAAP, except as disclosed in note 15(b).

Had the Company determined compensation costs based on the fair value at the grant date of its stock options consistent with the method prescribed under Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123 ("SFAS 123"), the Company's net earnings (loss) and earnings (loss) per share would have been reported as the pro forma amounts indicated below:

	2001	2000	1999
Net earnings (loss) in accordance with U.S. GAAP as reported	$ (3,830,675)	$ 2,910,427	$ 1,928,798
Pro forma net earnings (loss)	(4,719,780)	1,853,385	1,335,046
Pro forma basic earnings (loss) per share	$ (0.22)	$ 0.10	$ 0.09
Pro forma diluted earnings (loss) per share	(0.22)	0.09	0.08

Pro forma net earnings (loss) reflect only those options granted during the five years ended September 30, 2001. Therefore, the full impact of calculating compensation costs for stock options under SFAS 123 is not reflected in the pro forma net earnings amounts presented above because compensation cost is reflected over the expected lives of the options and the compensation cost for options granted prior to October 1, 1995 is not considered. The notional compensation expense associated with the Company's options is not deductible for Canadian income tax purposes. Accordingly, the full amount of compensation expense is reflected in the pro forma figures above, without any related tax recovery.

The weighted average estimated fair value at the date of the grant, as defined by SFAS 123, for options granted in fiscal 2001 was $2.39 per share (2000 - $3.07; 1999 - $1.20).

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the

following assumptions:

	2001	2000	1999
Risk-free interest rate	4.70%	4.70%	4.70%
Dividend yield	-	-	-
Volatility factor of the future expected market price of the company's common shares	65%	60%	40%
Weighted average expected life of the options	2.33 years	2.56 years	2.50 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected price volatility. Because the Company's employee share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee share options.

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis.

(e) Derivative financial instruments:

The Company enters into forward contracts to manage its exposure to fluctuations in foreign exchange rates. Effective October 1, 2000, the Company adopted the provisions of FASB Statement No. 133, "Accounting For Derivatives and Hedging Activities." SFAS No. 133 requires that all derivatives be recognized as assets and liabilities on the balance sheet and measured at fair value. Hedge accounting is only applied to derivatives if the hedging relationship has been identified, and the Company has formally documented the designation of the hedging relationship and the method for assessing the effectiveness of the hedging relationship. Both at inception of the hedging relationship and throughout its term, the relationship must be effective in achieving offsetting changes in the cash flows of the hedged item.

Under SFAS No. 133 for derivatives designated and effective as hedges of future cash flows, changes in the fair value of the derivative are recognized in other comprehensive income, with no impact on net earnings until the hedged item is recognized in earnings. To the extent the hedge is ineffective, or not designated or documented as a hedge, the change in fair value of the hedge would be recognized in earnings each period. During 2001, the Company had not designated and documented its foreign exchange contracts as a hedge of future cash flows and, therefore, must

record the change in fair value as a charge against earnings.

Under Canadian GAAP, no accounting recognition is given to the fair value of those forward contracts which are a hedge of future cash flows. As at September 30, 2001, the fair value of foreign exchange forward contracts, which were otherwise designated as a hedge of future cash flows for Canadian GAAP, totalled $(85,006). This amount represents an additional liability under U.S. GAAP, and this amount net of the related tax recovery is recorded as a charge to U.S. GAAP net earnings. On initial adoption of SFAS No. 133 on October 1, 2000, the fair value of such foreign exchange contracts totalled $(23,716).

(f) Comprehensive income:

The Company's comprehensive income represents U.S. GAAP net earnings plus the change in the cumulative translation adjustment account in respect of foreign operations as follows:

	2001	2000	1999
Net earnings (loss) for the year in accordance with U.S. GAAP	$ (3,830,675)	$ 2,910,427	$ 1,928,798
Decrease (increase) in cumulative translation adjustment account	1,147,208	180,516	(494,844)
	$ (2,683,467)	$ 3,090,943	$ 1,433,954

(g) Reduction of capital:

In 1997, the share capital of the Company was reduced by $9,886,961 pursuant to a special resolution of its shareholders and was applied against the deficit. This reduction in capital is not permitted under U.S. GAAP. While the adjustment has no impact on shareholders' equity, under U.S. GAAP, capital stock would be increased by $9,886,961 and retained earnings would be decreased by $9,886,961 as at September 30, 2001 and 2000.

(h) Statements of cash flows:

The Company has disclosed cash flows from operations per share, which is not permitted under U.S. GAAP.

(i) Other disclosures:

U.S. GAAP and the United States Securities and Exchange Commission require

the Company to disclose the following items, for which disclosure is not required under Canadian GAAP:

(i) The allowance for doubtful accounts as at September 30, 2001 was $1,432,668 (2000 - $493,659).

(ii) Rent expense under operating leases for the year ended September 30, 2001 amounted to $1,980,592 (2000 - $1,680,822).

(iii) As at September 30, 2001, the Company had a $32,158,672 (2000 - $15,218,794) unused line of credit, of which $2,000,000 is available for general corporate purposes and the remainder for permitted acquisitions.

(iv) U.S. GAAP requires the disclosure of accrued liabilities. Accrued liabilities included in accounts payable and accrued liabilities as at September 30, 2001 were $6,330,821 (2000 - $7,492,551). At September 30, 2001, accrued liabilities include $2,263,266 related to additional consideration for the acquisition of Hampel Stefanides (note 2(f)). At September 30, 2000, accrued liabilities include $2,100,651 related to additional consideration for the acquisition of Hampel Stefanides and $935,439 related to accrued acquisition expenses.

At September 30, 2001, there were no other accrued liabilities that exceeded 5% of current liabilities.

(v) The Company has disclosed both net earnings before goodwill amortization and net earnings per share before goodwill amortization, which are not permitted disclosures under U.S. GAAP.

(j) Recent accounting pronouncements:

(i) In July 2001, the CICA and FASB issued new similar standards for Business Combinations, Goodwill and Other Intangible Assets. These standards provide new guidance on the accounting for a business combination at the date a business combination is completed. Specifically, they require use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling-of-interests method. These standards also require that goodwill and certain other intangible assets will no longer be amortized and will be tested for impairment at least annually and written down only when impaired. These statements will apply to existing goodwill and intangible assets, and must be adopted by the Company no later than its fiscal year beginning October 1, 2002. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

(ii) Effective October 1, 2001, the Company will adopt the new Canadian accounting standard for earnings per share. Under this new standard, in computing diluted earnings per share, the dilutive effect of

outstanding options and warrants is computed by applying the treasury stock method, consistent with the method required under U.S. GAAP.

(iii) In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. SFAS No. 143 is effective for the Company's fiscal year beginning October 1, 2002. The Company does not believe that the adoption of SFAS No. 143 will have a material impact on its consolidated financial statements.

(iv) In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and related literature and establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The Company is required to adopt SFAS No. 144 for its fiscal year beginning October 1, 2002. The Company does not believe that the adoption of SFAS No. 144 will have a material impact on its consolidated financial statements.

(v) Effective October 1, 2002, the Company will adopt the new Canadian accounting standard for stock-based compensation and other stock-based payments. The new standards will require additional disclosures for options granted to employees and that a compensation cost be recorded for the fair value of options granted to non-employees. The new standards for non-employees will be similar in many respects to SFAS No. 123. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

(vi) Effective October 1, 2003, the Company will be required to adopt the new Canadian Accounting Guideline, Hedging Relationships, that establishes standards for the documentation and effectiveness of hedging relationships that are substantially similar to the corresponding requirements in SFAS No. 133. The Company has not determined the impact of the adoption of these standards on its consolidated financial statements.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Envoy Communications Group Inc.

Date: February 14, 2002

/s/ Geoffrey B. Genovese

Name: Geoffrey B. Genovese
Title: Chairman and Chief Executive Officer

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