



First Interim Report

for the 4 Months Ending  
March 31, 2003

## CEO'S MESSAGE

This report summarizes Bridges' progress during the four-month period ending March 31, 2003. This is the first interim reporting period since our announcement on November 6, 2002, that described plans to undergo a significant restructuring of our business and to change the company's year-end to June 30th. Through this period, much progress has been made but much still remains to be done.

Our restructuring continues to be implemented as planned. Over the past four months we have significantly reduced our operating costs and overhead expenses. At the time of the restructuring announcement, our annualized overhead and expense levels were approximately \$17 million per year. Currently, annualized operating and overhead expenses are approximately \$14.5 million per year. These lower expenses were achieved through staff reductions as well as efforts made to streamline our business processes. Further declines in operating and overhead expenses will be accomplished over the next few months as we complete the restructuring, close our Ottawa, Ontario, office and consolidate the majority of those job functions in our Kelowna, British Columbia, head office.

This restructuring accompanies a continuous deterioration in our key markets. The majority of our revenues are derived from school districts that are funded by state education budgets in the United States. As has been widely reported in the media, many of these educational institutions are under severe budget constraints, making it very difficult for our sales and marketing departments to meet our revenue expectations. To compound this difficulty, the rising value of the Canadian dollar has steadily reduced the value to us of U.S. dollar sales, which exceed 85% of our revenue.

In November, in addition to our restructuring, we announced that Bridges would adopt fully ratable revenue recognition for all of our subscription products beginning December 1, 2002. This being the case, it is necessary to compare the value of invoices issued in the current fiscal period with that of the previous year in order to judge our level of business activity. In the four-month period ending March 31, 2003, we invoiced \$2.9 million. This compares poorly with the aggregate of invoices of \$3.1 million issued in the same period of 2002. This 7% decline is reflective of market conditions and is similar to the sales experiences of other education companies doing business in the United States.

Unfortunately, we expect this trend to continue through the balance of this fiscal and calendar year. Our customers are telling us that they expect to have restrictive budgets well into 2004 and perhaps beyond. Given this, our major tasks include making the most of each and every sales opportunity while continuing to seek ways to streamline and simplify our business processes to create efficiency. As said earlier, we have accomplished much, but there is still much to do.

In spite of our sales decline, Bridges customers continue to value our products and view us as a trusted and reliable vendor. In the weeks and months ahead, it will be our task to continue to earn this trust by meeting our customer service requirements. At the same time, we recognize that our customers have changing needs and priorities. Finding ways to provide new products or services that satisfy these changing priorities is our next goal. Our specific plans in this respect will be brought forward in the very near term and well in time for implementation in the next school year cycle.

All of us at Bridges continue to work diligently through these difficult conditions. We do so because we know that what we do matters. Our products and services support the efforts of a large share of education professionals who aspire to help young people improve achievement through the building and implementing of solid plans for their futures. At the same time, we know that we can and must do our work in a manner that produces excellent financial results for our shareholders. In our quest to meet these objectives, we appreciate the continued support of our shareholders.

On behalf of the Board of Directors



John Simmons  
Chief Executive Officer

## Management's Discussion & Analysis

### Management's Discussion & Analysis

*Certain statements in this report may constitute forward-looking statements. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.*

*The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended November 30, 2002. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.*

### OVERVIEW

Bridges develops, markets and delivers career information database products and services through the Internet and on CD-ROM. These resources are designed to assist individuals to explore, plan and apply for career and educational related opportunities. Bridges' product solutions are purchased by approximately 4,500 customers throughout most states and provinces in the U.S. and Canada. These purchases provide Bridges' products to over 15,000 schools, colleges and government agencies – making it North America's leading provider of such resources to institutions and individuals in the career services marketplace. These customers are supported by a sales and service staff distributed across both countries, and by an office in Kelowna, B.C. A telephone-based sales force and customer service call centre are located in Kelowna.

The Company strategy is to continue to support school guidance counsellors and career management counsellors by providing user-relevant, engaging, time leveraging products. School-based products are also designed to comply with current and emerging educational trends and relate to higher level funding sources. The Company believes that it maintains a competitive advantage by offering products as both a CD-ROM and on an Internet delivered platform. CD-ROM products are updated annually and Internet-based products are constantly refreshed and updated.

The Company's products are used in high schools, middle schools, elementary schools, "one stop" employment centres, two and four-year post-secondary educational institutions as well as prisons, libraries and other markets where career and educational planning is done. The buyer is either the school, institution or business, or may be a school district, province or state, which purchases for multiple sites. Funds for purchasing the Company's products generally come from discretionary spending funds and, as such, initial spending and resubscription funding is subject to a periodic buying decision review by the customer. Often, funding is provided by senior levels of a state or by the federal government. Such funding can be for specific programs suited to the Company's products, or may be for general operating funds. In times of decreased funding or when senior government spending programs are reduced, the Company experiences a more challenging market condition.

The Company employs a sales staff at the Kelowna call centre to contact prospective customers and also attend conferences and venues which prospects attend. Administrative sales staff and customer support staff are used to contact existing customers regarding their annual resubscription. Additionally, the Company has regionally based sales staff distributed throughout the markets. This staff group supports existing customers, provides product training, and demonstrates product use to prospective customers.

### Critical Accounting Policies: Revenue recognition

Revenue from all products is billed and due at the point of initial product delivery, or initial subscription start date for those products sold with an annual site licence.

During 2002, the Company recognized revenue in four primary ways. Firstly, products that are entirely accessed over the Web have revenue that is recognized ratably by month over the subscription period. Secondly, revenue is recognized in the month of shipment for CD-ROM-based products that have no Web access or ongoing user support. Thirdly, certain annual subscription products are sold which include both a shipped CD-ROM and Web service access. The customer chooses which product delivery mode they use over the term of subscription, and this can vary during that period. The customer may use either Web server access, or by installing the CD-ROM on their local-area network or a PC. The Company recognizes revenue for such sales based on the nature and relative fair values of the elements: CD-ROM upon delivery, customer acceptance and when ability to collect is reasonably assured; and Web accessed elements ratably over the life of the subscription period. In the event a bundled sale of multiple products is sold, the discount taken for purchasing a bundle of products is allocated ratably to the constituent products on the basis of the fair value of such components when sold separately. The determination of fair value of elements, bundled arrangements and customer requirements therefore impacts the timing of the revenue recognized, but not the invoicing or cash flow. Lastly, service revenues are generated from consulting services related to the implementation of information database products. Revenues from services are recognized upon substantial completion of service, provided the fee is fixed or determinable and collection is reasonably assured.

In November 2002, the Company introduced a new enabling technical infrastructure that will facilitate product (including CD-ROM-based products) access to database information that is updated over time. The Company has announced a 2003 sales support program of user and administrator training during the term of subscription. The Company is considering merging individual product features into a more universal product. For these reasons, effective December 1, 2002, the Company began applying the fully ratable revenue recognition policy to all subscription products. In 2002, approximately 94% of billings of \$18,879,104 were subscription products. In the first 4 months of 2003 the comparable figures are 93% and \$2,668,514 of total billings of \$2,860,972. Use of this policy will result in less quarterly seasonality in revenue recognition. During the first four months, deferred revenue rose by \$ 108,627. This policy does not impact the timing of invoicing, which peaks during the August to November period – when historically 60% to 65% of invoices are

issued. As such, revenue recognition will not impact cash flow. The Company estimates that if billings in 2003 were at similar levels to 2002, that deferred revenue would increase to between \$9,000,000 and \$12,000,000 by autumn 2003.

**Capitalization of Infrastructure costs**

During 2001 and 2002, the Company purchased technical hardware, software and consulting services to design and build customer facing systems and internal use systems. Additionally, certain existing and newly hired engineering and project management staff was assigned to the capital project. The direct costs from external suppliers and internal staff dedicated to the project were accumulated in capital works in progress accounts. These costs were capitalized and depreciation was charged at the point in time that the asset was commissioned. The direct labour costs of salaried staff capitalized during the 2002-year was \$965,000. The infrastructure project was commissioned in November. With the Company's infrastructure now commissioned, the Company expects that capitalized labour will be substantially reduced in future periods. During the four month period ended March 31, 2002, \$65,043 of internal direct labour had been capitalized.

The customer-facing systems include an enabling new infrastructure to host Web-delivered applications, design and build new product applications and technical delivery software, and provide authorization and authentication for customer use of products. The internal facing systems include hosting enterprise systems for accounting and regulatory compliance and a custom designed customer relationship management system, billing and sales analysis system, subscription control system, and shipping control system. Individual components are classified as to their estimated useful life to the Company, which is generally three to five years.

**TRENDS**

The Company derives in excess of 90% of revenue from customers in the United States, a trend expected to continue.

Under the Company's current business model, the predominant revenue source is licence resubscriptions by existing customers. Additionally, the Company has sales to new customers. In 2002, the installed site resubscription rate fell from approximately 90% to 84%. To date in 2003, there has been no apparent recovery. During the period, we commissioned an independent consultancy to survey our customers regarding product and service related issues. They reported that our products are well regarded and desired, but that they continue to have difficulty in securing funding. In 2002, amounts invoiced to customers declined by 3% from levels achieved in 2001. Our annual billings are at their seasonal low during the current period. Billings were 7.3% below the same period last year, of which 3% represents appreciation of the Canadian dollar. The company believes that funding will continue to be a challenge to be faced. The Company has attributed the decline in resubscriptions to a more restricted funding environment, particularly in the United States markets. The Company expects that this difficult funding environment will continue for several years to come.

In 2000, the Company began a 24-month capital asset spending program. Objectives were:

- to enable handling substantially increased customer service volumes for small incremental costs
- to provide a scalable architecture to allow server expansion once current capacity was reached
- to separate product design servers from product delivery servers, minimizing risk of service interruption
- to facilitate software development in a more robust and efficient manner on staging servers
- to be a platform to build new product applications more effectively and;
- to facilitate migration of predecessor Careerware products to a common technical platform.

This spending program was substantially completed and the new infrastructure was commissioned for use in November 2002. Due to the fall in installed site resubscription rates, current systems load is lower than expected. This new infrastructure has ample capacity to host higher service volumes, and the Company expects to improve customer service and reliability and also to reduce internal product development costs in the future. Capital spending for the infrastructure is largely complete, and the Company expects capital spending well below depreciation rates in the future. The company is pleased with the systems performance since activated.

**2002 RESTRUCTURING**

During the first half of the 2002 fiscal year, the Company experienced an unexpected decline in resubscription invoicing of about 5%, or \$1,000,000. In November 2002, management responded to the sales trend and funding uncertainties by restructuring its operations. The Company incurred a restructuring charge of \$3,142,021 inclusive of cash costs of \$2,755,971 relating to severance and termination (\$2,237,638) and excess lease facilities costs (\$518,333). In addition the Company incurred non-cash costs of \$386,050 relating to the write down of capital assets. These plans were announced November 6, and should be fully completed by autumn 2003. As a result of the restructuring of its operations, the Company expected and now reconfirms annual operating savings of \$2,400,000. During the four months, the Company continued to complete these plans, and no material changes to the provision are expected to be required.

Note 3 to the Consolidated Financial Statements provides further details of the provision and payments made to March 31, 2003.

**RESULTS OF OPERATIONS**

As previously reported, the Company has received approval to change the fiscal year end from November 30 to June 30 to better align with customers' budget and buying cycles. In the operating results included in this report, the Company operations are reported as the one month ending December 31, 2002, the three months ending March 31, 2003, and the four months ending March 31, 2003. Comparative figures of the three months ending March 31, 2002 are also presented.

The Company is in transition, changing from a November ending fiscal period to a June ending fiscal period. Under security regulations we report the four months ending

March 31, 2003, as compared to the three months ending March 31, 2002. Later, this will allow calendar quarter based comparisons.

As supplementary information, the following are important comparative operating results for the four months ending March 31:

	March 31, 2003	March 31, 2002	Variance	Percent Change
Invoicing	\$2,860,971	\$3,084,898	(\$223,927)	(7.3%)
Revenue	\$2,752,344	\$3,936,525	(\$1,184,181)	(30%)
Cost of goods sold	\$1,712,816	\$1,791,025	\$78,209	4.3%
Overheads	\$2,464,607	\$3,590,104	\$1,125,497	31.3%
EBITDA	(\$1,425,079)	(\$1,444,604)	\$19,525	1.3%

As noted previously, the 7.3% drop in invoicing is inclusive of the recent appreciation trend of the Canadian dollar, which account for 3% points of the variance. The 30% reduction in reported revenue reflects the application December 1 of our ratable revenue policy to all subscription products. The positive cost variances reflect reduced spending resulting from the restructuring event announced November 6, 2002, and is primarily affected by the associated staff reductions. Further comments comparing the four months ending March 31, 2003, with the three months ending March 31, 2002, follow below.

**Revenue**

The Company has a seasonal revenue pattern. Based on historical data, the Company would typically secure orders and invoice 30-35% of its annual invoice total in the first half of the fiscal year. Readers of the Company's financial statements should be aware of this seasonality.

Total revenue decreased by 12% to \$2,752,344 in the four months ended March 31, 2003, from \$3,138,349 for the three months ended March 31, 2002. Total revenue decreased by 36% to \$2,023,241 in the three months ended March 31, 2003, from \$3,138,349 for the three months ended March 31, 2002. This decrease in revenue is due mainly to more revenue being recognized on a fully ratable basis than in previous years as a result of the new continuous level of service being offered to customers, as well as difficulties experienced by our customers in securing funding.

Revenue from the Company's U.S. customers accounted for \$2,478,950, or 90% of total revenue for the four months ended March 31, 2003, compared to \$2,714,990, or 87% of total revenue for the three months ended March 31, 2002. Revenue from the Company's Canadian subscribers accounted for \$273,394, or 10% of the total revenue for the four months ended March 31, 2003, compared to \$423,359, or 13% of total revenue for the three months ended March 31, 2002.

The Company monitors invoicing as a key business metric. In the four months ending March 31, 2003, the Company issued invoices totalling \$2,860,971 compared to \$2,658,849 for the three months ending March 31, 2002, an increase of \$202,122, or 8%. The Company issued invoices totaling \$2,658,849 in the three months ending March 31, 2002, compared to \$2,384,043 for the three months ending March 31, 2003, a decrease of \$274,806, or 10%. This decrease is mainly the result of funding reductions being experienced by our customers. The Company invoices for collection of the entire annual subscription fee at the outset of the subscription date.

**Change of Product Offering and Resulting Revenue Reporting**

On November 6, 2002, Bridges announced that, beginning December 1, 2002, it would adjust its subscription service levels for all subscription products - those primarily delivered by CD-ROM as well as those that are Internet delivered. These new service levels, made possible by the commissioning of Bridges' new technical infrastructure, will give all subscribers access to ongoing and topical information via the Internet. Given this new level of service, the Company will recognize the revenue from all subscription products on a fully ratable basis.

Invoicing and cash flow will not be impacted by the adoption of fully ratable revenue recognition. Revenue from such products will continue to be invoiced annually at the outset of the subscription, with the full amount due at the start of the subscription. The revenue from these products will be recognized in equal monthly amounts over the term of the subscription, which is generally 12 months. Previously, revenue derived from CD-ROM and product sales was recognized both upon delivery and over the usage period and, as a result, the Company had deferred revenue of about 15% to 18% of annual invoiced amounts. With a consistent product sales mix, which is expected, deferred revenue will rise to between 50% and 60% of invoiced amounts, once a fiscal 12-month cycle has been completed. The Company expects that as a result, subscription revenue recognized for the initial 12-month period commencing December 1, 2002, will be 35% below comparable 2002 levels.

**Cost of Revenue and Gross Margin**

Cost of revenue increased by 29% to \$1,712,816 for the four months ending March 31, 2003, compared to \$1,328,303 for the three months ending March 31, 2002, however cost of revenue decreased by 7% to \$1,239,407 for the three months ending March 31, 2003, compared to \$1,328,303 for the three months ending March 31, 2002. As a percentage of revenue, cost of revenue increased to 61% in the three months ended March 31, 2003 from 42% in the three months ended March 31, 2002, largely due to the reduction of revenue as a result of the adoption of fully ratable revenue recognition.

Costs of revenue consist primarily of salaries and other personnel-related expenses for technical and product development related staff as well as material and shipping costs and royalty expenses. The decrease in cost of revenue resulted from decreases in staff levels. As noted above, the Company's restructuring and staff reductions are expected to improve the Company's gross margin in the longer term (after 12 months), once the impact of increases in deferred revenue are fully realized.

**Sales and Marketing**

Sales and marketing expense decreased by 13% to \$1,711,191 for the four months ending March 31, 2003 compared to \$1,957,323 for the three months ending March 31, 2002. Sales and marketing expense decreased by 33% to \$1,315,426 for the three months ending March 31, 2003, compared to \$1,957,323 for the three months ending March 31, 2002. As a percentage of total revenue, sales and marketing expense remained the same at 62% for the four months ending March 31, 2003, and the three months ending March 31, 2002. As a percentage of total revenue, sales and marketing expense increased to 65%

for the three months ending March 31, 2003, compared to 62% for the three months ending March 31, 2002.

Sales and marketing expense includes salaries, commissions and other personnel-related costs, travel expenses, advertising programs and other promotional activities associated with selling and marketing the Company's products. Also included are all salaries and other personnel related costs for customer support. In addition, the costs of trade shows, advertising and marketing are included.

Significant reduction in staffing levels of the sales and marketing team as a result of the restructuring has resulted in lower overall sales and marketing expense. The increase in sales and marketing as a percentage of total revenue is largely due to the reduction of revenue as a result of the adoption of fully ratable revenue recognition.

#### **Research and Development**

Research and development expense consists primarily of salaries and other personnel-related costs of technical personnel associated with the Company's research and product development activities. The Company classifies software engineering and product development expenses related to creating entirely new products as research and development. The costs of maintaining or further developing existing products is classified as cost of revenue.

The Company continued to apply its policy whereby research and development costs are expensed as incurred, unless they meet certain criteria under generally accepted accounting principles for deferral and amortization. The Company has determined that none of the research and development costs met those criteria.

Research and development expense decreased by 22% to \$60,845 for the four months ending March 31, 2003, compared to \$77,870 for the three months ending March 31, 2002. As a percentage of total revenue, research and development expense stayed the same at 2% for the four months ending March 31, 2003, compared to the three months ending March 31, 2002. The reduction in research and development expenses was the result of delaying development of additional new products pending surveys of customers and conceptual design of market driven products, as well as the impact of restructuring.

#### **General and Administration**

General and administrative expense consists primarily of salaries and other personnel-related costs of administrative personnel, as well as professional fees and other administrative expenses.

General and administrative expense decreased by \$78,021, or 10% to \$692,571 in the four months ending March 31, 2003, from \$770,592 in the three months ending March 31, 2002. General and administrative expense decreased by \$244,588 or 32% to \$526,004 in the three months ending March 31, 2003, from \$770,592 in the three months ending March 31, 2002. As a percentage of total revenue, general and administrative expense remained constant at 25% for the four months ending March 31, 2003, and the three months ending March 31, 2002. As a percentage of total revenue, general and administrative expense increased to 26% for the three months ending March 31, 2003, from 25% for the three months ending March 31, 2002. The reduction in expenses reflects the

consolidation of administrative functions in Kelowna, staff reductions and the Company's efforts to improve business processes.

#### **Amortization**

Amortization of capital assets increased by 45% to \$426,726 for the four months ending March 31, 2003, from \$293,917 for the three months ending March 31, 2002. Amortization of capital assets increased by 8% to \$316,367 for the three months ending March 31, 2003, from \$293,917 for the three months ending March 31, 2002. The increase in amortization is the result of the completion of the new capital infrastructure.

#### **Other Income**

##### **Interest Income**

The Company earned interest income on its cash balances and treasury bills. Interest income decreased to \$34,491 in the four months ending March 31, 2003 from \$34,921 in the three months ending March 31, 2002. The decrease in interest income earned in 2003 is primarily the result of the reduction in cash balances as a result of investment in capital assets, and secondarily from lower market rates.

##### **Foreign Currency**

A significant portion of the Company's revenue is received in U.S. dollars and a substantial portion of the Company's expenses are incurred in Canadian dollars. As a result, a change in the value of the Canadian dollar relative to the U.S. dollar could materially affect the Company's operating results.

The Company currently experiences approximately a 70-day lag between the billing date and subsequent collection of accounts receivable. At each balance sheet date, the Company revalues accounts receivable denominated in U.S. funds to current rates. A currency translation gain or loss may be recognized.

The Company has an independent treasury service on annual retainer to provide advice and currency trading services and to place surplus funds on deposit at optimal rates. The Company maintains a cash reserve in U.S. dollars adequate to meet orderly payment of U.S. funds disbursement needs, and converts the balance of surplus U.S. funds to Canadian funds. During periods that a predominant trend of an appreciating Canadian dollar seems apparent, the Company may commit to forward purchase contracts to sell U.S. funds.

Foreign currency translation gains and losses arising from normal business operations are credited to or charged to other income in the period incurred. To date, the Company has from time to time used foreign exchange forward contracts to reduce its exposure to the foreign exchange fluctuations. As a result, fluctuations in the value of the Canadian dollar relative to the U.S. dollar have caused and will continue to cause currency translation gains and losses.

Foreign exchange losses increased to \$257,779 in the four months ending March 31, 2003, from gains of \$47,849 in the three months ended March 31, 2002. As a percentage of total revenue foreign exchange losses increased to 9% in the four months ending March 31, 2003, from a gain of 2% in the three months ending March 31, 2002.

The majority of the gains have arisen on transactions denominated in U.S. dollars and accordingly will recognize

foreign exchange gains in times of a weakening Canadian dollar. Conversely, exchange losses will be recorded when the Canadian dollar increases in value. The Company estimates that a 1% increase (decline) in the Canadian dollar relative to the U.S. dollar would decrease (increase) revenue and net earnings by \$169,000 based on annualized billings.

#### **Income Taxes**

At March 31, 2003, the Company had a substantial tax loss carry forward and significant tax depreciation to shelter future profits. No tax provision was recorded for the three-month period ended March 31, 2003.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Since its inception the Company has financed its operations through the combination of a series of private and public sales of equity securities and cash generated by operations. The Company ended 2002 with cash and cash equivalents of \$4,328,116. During the period, the Company completed a debt financing with the Business Development Bank of Canada for a 50-month term loan of \$1,200,000. These funds were used for general working capital purposes. During the four-month period ending March 31, 2003, the Company used cash for operating activities of \$1,273,587, up from the \$287,296 used during the period ending March 31, 2002. This increase in the use of cash can be mainly attributed to the paying out of accrued restructuring costs.

Cash balances are held in general operating bank accounts, and cash equivalents are held in highly liquid investments including money market accounts, treasury bills, and commercial paper. The Company closely monitors its credit risk on its deposits and short-term investments.

The Company has an operating line of credit with a Canadian chartered bank of up to a maximum borrowing amount of \$3.0 million secured by a first charge and general security agreement over all assets. At March 31, 2003, no funds had been drawn on this facility. At March 31, 2003, the Company did not meet certain of its covenants on this facility and negotiations are in progress to amend the covenants and borrowing limits.

The Company expects that existing cash balances, cash generated by the Company's operations, and funds available under the Company's credit facility will be sufficient to finance any budgetary requirements for internal growth and meet any foreseeable working capital and capital expenditure requirements.

The Company is obligated under certain lease commitments for payments totaling \$458,074 in fiscal 2003. In addition, in the remaining months of 2003, the Company expects to complete its restructuring which may require the use of an additional \$1,400,000 of cash.

#### **NORMAL COURSE ISSUER BID AND CHANGES TO STOCK OPTIONS**

During the period there were no share purchases under the company's normal course issuer bid. The bid period expired February 25, 2003, and to date the Company does not have plans to enter into another bid.

On February 10, 2003, the Company announced that it had offered to employees a Toronto Stock Exchange-approved, Employee Share Option Reset Program. Under this

program, non-executive employees had the one-time choice to surrender their options. Employees who chose to surrender their options are entitled to receive new share options at the ratio of one new share option per two share options surrendered. The new share options will be issued at a strike price to be determined on June 23, 2003, based on the closing share price that day. As of the option cancellation date of December 20, 2002, a total of 229,100 share options had been surrendered and cancelled under this program.

#### **RISK FACTORS**

Certain statements contained in this Interim Report, including statements, which may contain words such as "could", "expect", "believe", "will" and similar expressions, and statements relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of Bridges to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements.

These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement to the Corporation's services and products; customer demand for its products and services; expectations concerning future revenue and earnings; general economic and business conditions; control of costs and expenses; loss of key employees; stock market volatility; changes in laws and regulations; Bridges' ability to compete successfully and adapt to technological advances and changing industry standards; currency exchange rate fluctuations; economic, political, and other risks associated with national and international sales and operations; Canadian and U.S. government regulations; price and product competition; the ability to implement in a timely manner the Corporation's restructuring plans; the ability to form and implement alliances; and other factors and risks.

All forward-looking statements in this Interim Report are based on management's reasonable beliefs, intentions, and expectations with respect to future events and are subject to certain risks, uncertainties, and assumptions as of the date hereof. Readers are cautioned not to put undue reliance on such forward-looking statements which are not a guarantee of future performance and are subject to a number of risks, uncertainties and other factors -- many of which are outside of Bridges' control -- that could cause actual results, performances or achievements of Bridges to differ materially from any future results, performances or achievements expressed or implied by such forward-looking statements. The Corporation cannot give assurance that the forward-looking statements contained herein will be realized. Bridges assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Statements & Notes

BRIDGES.COM INC.

Consolidated

**Balance Sheets**

	March 31, 2003 (unaudited)	November 30, 2002
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 3,758,270	\$ 4,328,116
Accounts receivable	1,588,376	3,987,314
Prepaid expenses and other	636,434	656,875
	5,983,080	8,972,305
Restricted cash	200,000	-
Capital assets (Note 3)	7,706,631	7,928,313
	\$ 13,889,711	\$ 16,900,618
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 1,104,500	\$ 2,345,722
Deferred revenue	3,700,753	3,592,126
Accrued restructuring charge (Note 4)	1,454,569	2,330,856
Current portion of long-term debt	288,000	-
Current portion of capital lease obligations	17,695	74,193
	6,565,517	8,342,897
Long-term debt (Note 5)	840,000	-
	7,405,517	8,342,897
COMMITMENTS (Note 6)		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock (Note 7)	17,857,264	17,857,264
Deficit	(11,373,070)	(9,299,543)
	6,484,194	8,557,721
	\$ 13,889,711	\$ 16,900,618

**APPROVED BY THE BOARD**



**John C. Simmons**, Director



**Terry M. Holland**, Director

See Accompanying Notes to the Consolidated Interim Financial Statements

Financial Statements & Notes

BRIDGES.COM INC.

*Consolidated*

**Statement of Operations and Deficit**

**(Unaudited)**

	One month ended December 31, 2002	Three months ended March 31, 2003	Four months ended March 31, 2003	Three months ended March 31, 2002
REVENUE	\$ 729,103	\$ 2,023,241	\$ 2,752,344	\$ 3,138,349
COSTS OF REVENUE	473,409	1,239,407	1,712,816	1,328,303
GROSS MARGIN	255,694	783,834	1,039,528	1,810,046
EXPENSES				
Sales and marketing	395,765	1,315,426	1,711,191	1,957,323
Research and development	20,217	40,628	60,845	77,870
General and administrative	166,567	526,004	692,571	770,592
	582,549	1,882,058	2,464,607	2,805,785
LOSS BEFORE AMORTIZATION, OTHER INCOME (LOSS), AND INCOME TAXES	(326,855)	(1,098,224)	(1,425,079)	(995,739)
Amortization of capital assets	(110,359)	(316,367)	(426,726)	(293,917)
Amortization of intangibles	-	-	-	(550,173)
Other income (loss)	53,961	(271,035)	(217,074)	82,771
LOSS BEFORE INCOME TAXES	(383,253)	(1,685,626)	(2,068,879)	(1,757,058)
Income tax expense (recovery)	1,750	2,898	4,648	(729,168)
LOSS FOR THE PERIOD	\$ (385,003)	\$ (1,688,524)	\$ (2,073,527)	\$ (1,027,890)
DEFICIT, BEGINNING OF PERIOD	(9,299,543)	(9,684,546)	(9,299,543)	(2,750,391)
Excess of purchase cost over carrying value of common shares cancelled (Note 7 (a))	-	-	-	(510,472)
DEFICIT, END OF PERIOD	\$ (9,684,546)	\$ (11,373,070)	\$ (11,373,070)	\$ (4,288,753)
Basic loss per share	\$ (0.03)	\$ (0.13)	\$ (0.16)	\$ (0.08)
Weighted average number of shares used to calculate basic loss per share	12,616,703	12,616,703	12,616,703	12,806,162

See Accompanying Notes to the Consolidated Interim Financial Statements

BRIDGES.COM INC.

*Consolidated***Statement of Cash Flows****(Unaudited)**

	One month ended December 31, 2002	Three months ended March 31, 2003	Four months ended March 31, 2003	Three months ended March 31, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (385,003)	\$ (1,688,524)	\$ (2,073,527)	\$ (1,027,890)
Items not affecting cash				
Amortization of capital assets	110,359	316,367	426,726	293,917
Amortization of intangibles	-	-	-	550,173
Future income tax recovery	-	-	-	(742,015)
Changes in operating assets and liabilities:				
Accounts receivable	968,292	1,430,195	2,398,487	2,274,869
Prepaid expenses and other	(91,174)	111,615	20,441	(151,404)
Accounts payable and accrued liabilities	(182,026)	(1,096,028)	(1,278,054)	(1,005,446)
Deferred revenue	(252,175)	360,802	108,627	(479,500)
Accrued restructuring charge	(285,851)	(590,436)	(876,287)	-
	(117,578)	(1,156,009)	(1,273,587)	(287,296)
<b>CASH FLOW FROM INVESTING ACTIVITY</b>				
Purchase of capital assets, net of related accounts payable	(33,813)	(169,130)	(202,943)	(1,539,943)
	(33,813)	(169,130)	(202,943)	(1,539,943)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of common shares	-	-	-	17,923
Shares purchased for cancellation	-	-	-	143,904
Shares purchased and cancelled	-	-	-	(793,134)
Repayment of obligations under capital lease	(13,765)	(7,551)	(21,316)	(30,314)
Deposit of cash with lender	-	(200,000)	(200,000)	-
Proceeds from long term debt	-	1,200,000	1,200,000	-
Repayment of obligations under long term debt	-	(72,000)	(72,000)	-
	(13,765)	920,449	906,684	(661,621)
<b>NET CASH OUTFLOW DURING THE PERIOD</b>	(165,156)	(404,690)	(569,846)	(2,488,860)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	4,328,116	4,162,960	4,328,116	6,050,667
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 4,162,960	\$ 3,758,270	\$ 3,758,270	\$ 3,561,807
<b>Supplemental Cash Flow Disclosure:</b>				
Interest paid	\$ 818	\$ 22,021	\$ 22,839	\$ 8,052

See Accompanying Notes to the Consolidated Interim Financial Statements

**1. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at March 31, 2003, and for all periods presented, have been included.

The unaudited consolidated balance sheets, consolidated statements of operations and deficit and consolidated statements of cash flows have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements follow the same accounting policies and methods of applications as the most recent annual financial statements dated November 30, 2002. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the fiscal year ended November 30, 2002. As a result of the Company's decision to change its financial year end to June 30, the Company now reports on a calendar quarterly basis. For comparative purposes the Company has disclosed quarterly results for the three-month period ended March 31, 2002. These results have not previously been reported. The comparative quarterly results as reported in 2002 should be read in conjunction with the previous quarterly results (under the former fiscal reporting periods) filed on Sedar.

Invoicing fluctuates during the year as a result of seasonal influences based on school calendars, budget cycles, and the timing of school districts' funding sources. The Company's experience has been that approximately 30% of revenue is generated in the period from January through June and approximately 70% is generated in the period from July through December.

On December 1, 2002, due to changes in circumstances related to the access and delivery of subscription services, the Company adopted a policy of recognizing revenue from all subscription products on a fully ratable basis. This is expected to reduce the seasonal fluctuation in revenue.

**2. ADOPTION OF ACCOUNTING POLICIES**

*Share-based compensation*

Commencing December 1, 2002, the Company has adopted the new recommendations of the CICA for share-based compensation. The new recommendations require that a fair value be determined for options at the date of grant and that such fair value be recognized in the financial statements. In respect of share options awarded to employees, it is permissible to use either the fair value based method or intrinsic value based method; however, if the intrinsic based method is used, pro forma disclosure is required so as to show what the effect would have been had the fair value based method been applied.

The Company applies the intrinsic based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the financial statements related to its share options plans and the requisite pro forma disclosures have been made using the fair value method (Note 7 (d) )

*Revenue recognition*

The Company generates revenue through two sources: (1) information database product revenues and (2) service revenues as follows:

- (1) Information database product revenues are generated from the licensing of the right to use the Company's information database directly to end users.

Revenues from information database products are earned under three types of arrangements: (1) delivery of a CD information database; (2) online subscription services and database access provided over the license period; and (3) both provision of CD information database and online subscription services.

As of December 1, 2002, the Company is recognizing revenue from all subscription products on a fully ratable basis over the term of the contract, typically one year. This is the result of the commissioning of the Company's new technical infrastructure, which will give all subscribers access to ongoing and topical information via the Internet. Revenue from non-subscription products will continue to be recognized upon delivery of the CD-ROM where persuasive evidence of an arrangement exists, collection is probable, and the fee is fixed or determinable.

- (2) Service revenues are generated from consulting services related to the implementation of information database products. Revenues from these services are recognized upon substantial completion of service, provided the fee is fixed or determinable and collection is reasonably assured.

Revenues that have been prepaid or invoiced but do not yet qualify for recognition under the Company's policies are reflected as deferred revenues. The Company has a high rate of resubscription for products licensed annually. Renewal sales are invoiced on receipt of a customer's purchase order or other form of customer commitment. When the invoice predates the subscription renewal date, related invoiced revenue is fully deferred and becomes recognized on a fully ratable basis only once the subscription renewal date is passed.

**3. CAPITAL ASSETS**

	March 31, 2003		November 30, 2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 414,542	\$ 285,764	\$ 128,778	\$ 108,242
Computer equipment	2,414,926	1,818,245	596,681	650,428
Online network infrastructure costs	9,669,897	2,743,260	6,926,637	7,107,961
Leasehold improvements	141,920	87,385	54,535	61,682
	<u>\$ 12,641,285</u>	<u>\$ 4,934,654</u>	<u>\$ 7,706,631</u>	<u>\$ 7,928,313</u>

The net book value of assets under capital lease at March 31, 2003, totalled \$10,901 (November 30, 2002 – \$52,669), net of accumulated amortization of \$441,550 (November 30, 2002 - \$399,782).

**4. RESTRUCTURING CHARGE**

Restructuring Activities	Accrued Restructuring as at November 30, 2002	Cumulative Drawdowns		Accrued Restructuring as at March 31, 2003
		Cash	Non-cash	
Workforce reduction	\$ 1,832,806	\$ 731,622	\$ -	\$ 1,101,184
Excess facility costs	498,050	\$ 144,665	-	353,385
Asset writedowns	-	-	-	-
	<u>\$ 2,330,856</u>	<u>\$ 876,287</u>	<u>-</u>	<u>\$ 1,454,569</u>

During the first quarter of 2003, the Company paid \$876,287 in connection with the Company's decision to reduce its workforce and close the Ottawa branch office. Of this amount, employee termination and related costs of \$731,622 were paid to employees and \$164,948 was paid for excess facility costs. The balance of accrued restructuring charge of \$1,454,569 at March 31, 2003, is expected to be substantially drawn down by October 31, 2003.

The accrued restructuring provision reasonably reflects the estimated costs to complete the restructuring activities currently in progress or planned.

**5. LONG-TERM DEBT**

On January 7, 2003, the Company negotiated and drew on a term line of credit for \$1,200,000 with the Business Development Bank of Canada ("BDC"). This facility bears interest at 75 basis points over the bank's floating base rate and is secured by a direct charge against online network infrastructure assets of \$1,400,000 and a general security agreement. Funds from this facility will be used for general working capital purposes, with the exception of \$200,000, which is to be kept on deposit with the BDC. This \$200,000 has been disclosed as restricted cash at March 31, 2003.

	March 31, 2003
Term line of credit	\$ 1,128,000
Current portion	(288,000)
	<u>\$ 840,000</u>

The aggregate amount of payments required in each of the next five years ended June 30 on the above indebtedness is as follows:

2003	\$	72,000
2004		288,000
2005		288,000
2006		288,000
2007		192,000
	\$	<u>1,128,000</u>

**6. COMMITMENTS**

On December 20, 2000, the Company negotiated an operating line of credit, subject to meeting certain covenants, with a Canadian commercial bank to borrow up to \$3,000,000, which bears interest at market rates and is secured by a first charge and general security agreement over all assets. As of March 31, 2003, no amounts were outstanding under the facility. As of March 31, 2003, the Company did not meet certain of its covenants on this facility and is negotiating changes to such covenants with its bank.

**7. SHARE CAPITAL**

*(a) Common shares issued and outstanding*

	Shares	March 31, 2003 Amount	Shares	November 30, 2002 Amount
Balance, beginning of period	12,616,703	\$ 17,857,264	12,792,750	\$ 18,220,754
Shares repurchased and cancelled	-	-	(302,413)	(418,646)
Stock options exercised	-	-	126,366	55,156
<b>Balance, end of period</b>	<b>12,616,703</b>	<b>\$ 17,857,264</b>	<b>12,616,703</b>	<b>\$ 17,857,264</b>

During the year ended November 30, 2002, 302,413 shares were purchased at an average price of \$3.79 and a total cost of \$ 1,159,235. 321,213 shares were cancelled. The excess of the carrying value of the common shares over the purchase cost, amounting to \$740,589 has been charged to deficit. Of this amount, \$510,472 was charged to deficit during the four-month period ending March 31, 2002.

*(b) Normal course issuer bid*

On February 21, 2001, the Company announced a normal course issuer bid. Under the terms of the bid the Company, during the 12-month period beginning February 26, 2001, and ending February 25, 2002, was eligible to purchase on the Toronto Stock Exchange up to a maximum of 661,713 common shares in total. As at February 25, 2002, 661,713 shares have been purchased all of which have been cancelled as at February 28, 2002.

On February 21, 2002, the Company announced its intention to initiate a second normal course issuer bid. Under the terms of the bid the Company, during the 12-month period beginning February 26, 2002, and ending February 25, 2003, was eligible to purchase on the Toronto Stock Exchange up to a maximum of 643,378 common shares in total. As at February 25, 2003, 90,700 shares have been purchased and cancelled.

As at March 31, 2003, the Company does not have plans to enter into another bid.

*(c) Common shares and other equity outstanding*

As at April 23, 2003, there were 12,616,703 common shares issued and outstanding. As at April 23, 2003 there were 1,311,800 options issued and outstanding at exercise prices ranging from \$0.50 to \$7.00 with remaining weighted average contractual lives of 0.3 years to 4.9 years.

During the first quarter of 2003 the Company undertook an employee share option reset program. Under this program non-executive employees had the choice of surrendering their options. Employees surrendering their options are entitled to receive new share options at the ratio of one new share options per two share options surrendered, issued at a strike price to be determined on June 23, 2003, based on the closing share price that day. As of the completion date, December 20, 2002, a total of 229,1000 share options have been surrendered and cancelled under this program

*(d) Share based compensation*

The Company applies the intrinsic value based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the accounts for its share option

plans. For share options granted after 2001, disclosure of the impact of earnings and earnings per share as if the fair value based method for the share-based compensation had been applied is required. Such impact would approximate the following pro forma amounts:

	Four months ended March 31, 2003	
Net loss:		
As reported	\$	(2,073,527.00)
Compensatory fair value of options granted		(9,947)
Pro forma	\$	(2,083,474.00)
Basic loss per share:		
As reported	\$	(0.16)
Pro forma	\$	(0.17)

*Weighted Average Assumptions*

Expected Dividends	0%
Expected Volatility	73%
Risk Free Interest Rate	2.25%
Expected Option Life in Years	3

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options. The option-pricing models require the input of highly subjective assumptions including the expected price volatility. Bridges.com uses expected volatility rates, which are based on historical volatility rates trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of Bridges.com stock options.

**8. SEGMENTED INFORMATION**

The Company manages its operations in one business segment, the development, marketing and delivery of career information database products and services through the Internet and on CD-ROM. All of the Company's long-lived assets are located in Canada. The Company attributes revenue among geographical areas based on the location of the customers involved.

		One month ended December 31, 2002		Three months ended March 31, 2003		Four months ended March 31, 2003		Three months ended March 31, 2002
Canada	13%	\$ 95,085	9%	\$ 178,309	10%	\$ 273,394	13%	\$ 423,359
United States	87%	634,018	91%	1,844,932	90%	2,478,950	87%	2,714,990
		\$ 729,103		\$ 2,023,241		\$ 2,752,344		\$ 3,138,349

**9. CONTINUITY OF DEFERRED REVENUE**

The company invoices customers at the outset of the subscription, or for non-subscription products, at the time of shipment. Revenue is recognized based on the nature of the product or service provided. The following is a continuity schedule reconciling billings to revenue recognized:

	One month ended December 31, 2002	Three months ended March 31, 2003	Four months ended March 31, 2003	Three months ended March 31, 2003
Invoicing	\$ 476,928	\$ 2,384,043	\$ 2,860,971	\$ 2,658,849
Plus: opening deferred revenue	3,592,126	3,339,951	3,592,126	2,874,080
Less: ending deferred revenue	(3,339,951)	(3,700,753)	(3,700,753)	(2,394,580)
Revenue	\$ 729,103	\$ 2,023,241	\$ 2,752,344	\$ 3,138,349

**10. RELATED PARTY TRANSACTIONS**

During the four month period ended March 31, 2003, the Company paid \$80,000 (three months ended March 31, 2002 - \$39,000) in consulting fees to the CEO who is also a director of the Company. In addition, during the four month period ended March 31, 2003, the Company incurred charges of \$34,085 (three months ended March 31, 2002 - \$901,873) relating to online network infrastructure costs (computer software and hardware of \$0 (three months ended March 31, 2002 - \$415,693), consulting of \$32,013 (three months ended March 31, 2002 - \$482,558) and related expenses of \$2,072 (three months ended March 31, 2002 - \$3,622)) from a company related by way of a director in common.

**11. COMPARATIVE FIGURES**

Certain of the prior period's figures have been reclassified to conform with the current period's presentation.

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

**Terry M. Holland** <sup>(1) (2) (3) (5)</sup>  
Chairman, Bridges.com Inc.  
Chief Executive Officer and President of  
Trimin Capital Corp.

**John C. Simmons** <sup>(3)</sup>  
Chief Executive Officer, Bridges.com Inc.  
Chairman, Integrated Paving Concepts Inc.  
Director, Epic Biosonics Inc.

**Douglas J. Manning**  
President of Bridges.com Inc.

**Edward J. Hall** <sup>(1) (2)</sup>  
Co-President of Canadian Adult Communities Ltd.

**Scott B. Edmonds** <sup>(1) (4)</sup>  
Chief Financial Officer of Quadrus Financial  
Technologies Inc.

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Corporate Governance Committee
- (4) Joined the Corporation's Board of Directors effective February 25, 2003
- (5) Appointed Chairman of the Board of Directors effective February 25, 2003

### MANAGEMENT AND OFFICERS

**John C. Simmons**  
Chief Executive Officer

**Douglas J. Manning**  
President

**John B. Walker**  
Chief Financial Officer

**Patricia H. Montgomery**  
VP, Sales and Marketing

**Donald A. Phillips**  
VP, Product Development

**William R. M. Spittle**  
VP, Information Technology

**Norman R. Thompson**  
VP, Corporate Development and Secretary

### AUDITORS

Deloitte & Touche LLP  
Vancouver, British Columbia Canada  
2800-1055 Dunsmuir Street  
Vancouver, British Columbia V7X 1P4 Canada

### LEGAL COUNSEL

Miller Thomson LLP  
Robson Court, 1000-840 Howe Street  
Vancouver, British Columbia V6Z 2M1 Canada

### REGISTERED OFFICE

Burstall Winger LLP  
Suite 3100 Home Oil Tower  
324 –8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 2Z2 Canada

### CORPORATE OFFICES

**Canada**  
7B-1404 Hunter Court  
Kelowna, British Columbia V1X 6E6  
Tel: 250-869-4200  
Toll Free: 800-281-1168  
Fax: 250-869-4201  
Toll Free: 888-349-3437

2211 Thurston Drive, Suite 200  
Ottawa, Ontario K1G 6C9

**United States**  
33637-B Hwy 97N  
Oroville, Washington 98844

## CORPORATE INFORMATION

### Stock Listing

The common shares of Bridges.com Inc. are listed on the Toronto Stock Exchange (TSX) under the trading symbol BIT.

### Common Shares (TSX)

A total of 12,616,703 common shares were outstanding as of March 31, 2003.

### Investor Relations

Inquiries about the company and requests for information should be directed to:

### Norman Thompson

VP, Corporate Development and Secretary  
1-800-281-1168 or 1-250-869-4200  
investor-relations@bridges.com

### Web Sites

For more information about our company, products, and services, visit our website at:  
[www.bridges.com](http://www.bridges.com)

### REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company  
Calgary, Alberta  
Toronto, Ontario  
Canada



[www.bridges.com](http://www.bridges.com)

Bridges.com Inc.  
7B-1404 Hunter Court  
Kelowna, British Columbia V1X 6E6  
Tel: 1-250-869-4200  
Toll Free: 1-800-281-1168

Toronto Stock Exchange: **BIT**