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MDC PARTNERS INC
Form 40-F/A
December 20, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F/A

(Amendment No. 1)

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 Commission File Number 001-13718

MDC PARTNERS INC.

(Exact name of Registrant as specified in its charter)

| | | |
|---|--|---|
| Ontario (Province or other Jurisdiction of Incorporation or Organization) | 2751 (Primary Standard Industrial Classification Code Number) | Not Applicable (I.R.S. Employer Identification No.) |
|---|--|---|

45 Hazelton Avenue
Toronto, Ontario, Canada
M5R 2E3

(416) 960-9000

(Address and telephone number of Registrants' principal executive offices)

Ashton-Potter USA Ltd.
10 Curtwright Drive
Williamsville, NY 14221
(716) 633-2000

(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

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

Title of each class Name of each Exchange on which Registered:

None

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

Class A Subordinate Voting Shares, without par value

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

None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form Audited annual financial statements

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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 this annual report.

The Registrant had 18,369,451 Class A Subordinate Voting Shares outstanding as at December 31, 2003

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the registrant in connection with such Rule.

Yes _____ 82- _____ No [X]

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

DOCUMENTS FILED UNDER COVER OF THIS FORM

- Document No. 1: Annual Information Form for the year ended December 31, 2003, dated April 30, 2004.
- Document No. 2: Restated Audited Financial Statements for the financial year ended December 31, 2003, prepared in accordance with Canadian generally accepted accounting principles, and reconciled to United States generally accepted accounting principles in accordance with Item 17 of Form 20-F.
- Document No. 3: Restated Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2003.

EXPLANATORY NOTE

This Form 40-F/A for the year ended December 31, 2003 is being filed to restate our financial statements for the years ended December 31, 2003, 2002 and 2001. The Company has restated its consolidated financial statements to reflect the following:

(1) the correction of the acquisition of the 26% minority interest in Maxxcom Inc.; (2) corrections in the timing of the write-off of deferred financing fees, (3) corrections to the calculation of the gain on disposal of an asset and related income taxes, (4) correction of revenue recognition related to certain contract terms, (5) corrections to the accounting for certain investments, (6) the correction of the accounting for foreign exchange gains and losses on intercompany balances, and (7) the correction of the accounting for stock-based compensation, and (8) the correction to the computation of the dilutive effect of convertible debentures, in calculating diluted earnings per share.

Refer to Note 1 of the notes to the consolidated financial statements included herein which discloses the adjustments to the Company's consolidated financial

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statements resulting from these restatements.

The reconciliation of results reported in accordance with generally accepted accounting principles (GAAP) in Canada with the United States GAAP has also been restated to reflect the items above as well as the following additional items:

- (1) To recognize the fair value adjustment related to an embedded derivative in the Company's exchangeable securities as determined pursuant to SFAS 133, as amended by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities;
- (2) Correction of the accounting for an investment in a joint venture, previously accounted for on a proportionately consolidated basis for US GAAP purposes. Pursuant to APB Opinion No. 18. "The Equity Method of Accounting for Investments in Common Stock", this investment is accounted for using the equity method;
- (3) The correction of the timing and amounts recognized on gain on disposal of an asset

In addition, the Company has restated and reflected corresponding corrections to the Management Discussion and Analysis in Document No. 3. The Company has also revised Item's A and B to include information about the impact of the restatements on its internal controls. This Form 40-F/A does not reflect events occurring after the original filing date of the Form 40-F.

Document No. 1

MDC PARTNERS INC.

ANNUAL INFORMATION FORM

2004

April 30, 2004

MDC PARTNERS INC.

2004 ANNUAL INFORMATION FORM

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MDC PARTNERS INC.

2004 ANNUAL INFORMATION FORM

THE COMPANY

MDC Partners Inc. ("MDC" or the "Company") was formed by Certificate of Amalgamation effective December 19, 1986 pursuant to the Business Corporations Act (Ontario). Effective December 19, 1986, the Company amalgamated with Branbury Explorations Limited, and thereby became a public company. The registered and principal office of the Company is located at 45 Hazelton Avenue, Toronto, Ontario, M5R 2E3, and its telephone number is (416) 960-9000. The Company has amended its articles in the following instances:

(a) by Certificate of Amendment dated March 4, 1987, changing its name to MDC Corporation and further reorganizing its share capital changing its issued and outstanding common shares into Class A Subordinate Voting Shares and Class B Shares (each in an unlimited amount) and creating an unlimited number of non-voting preference shares, issuable in series, in an unlimited number, having those designations, preferences, rights, restrictions, conditions, limitations and other attributes as determined by the board of directors of the Company;

(b) by Certificate of Amendment dated May 31, 1988, creating "coattail" provisions to the Class A Subordinate Voting Shares of the Company;

(c) by Certificate of Amendment dated February 23, 1989, creating the first series of preference shares of the Company, designated as "Series 1 Preference Shares", and fixing the rights, privileges, restrictions and conditions attaching thereto;

(d) By Certificate of Amendment dated May 12, 1989, creating the second series of preference shares of the Company, designated as "Series 2 Preference Shares" and fixing the rights, privileges, restrictions and conditions attaching thereto;

(e) by Certificate of Amendment dated May 31, 1990, amending the preferences, rights, conditions, limitations and prohibitions attaching to the preference shares of the Corporation as a class;

(f) by Certificate of Amendment dated May 31, 1990, amending the provisions attaching to the Company's Series 1 Preference Shares;

(g) by Certificate of Amalgamation dated November 30, 1990, amalgamating the Company with its wholly-owned subsidiaries, MDC Production Services Limited and

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MDC Industries Inc.;

(h) by Certificate of Amendment dated September 3, 1991, empowering the directors of the Company to determine the number of directors to be elected at each annual meeting of shareholders, subject to the articles of the Company;

(i) by Certificate of Amendment dated February 27, 1992, amending the provisions attaching to the Company's Series 1 Preference Shares;

(j) by Certificate of Amendment dated January 7, 1992, clarifying the provisions attaching to the Class A Shares and the Class B Shares and redesignating the Class A Shares as "Class A Subordinate Voting Shares";

(k) by Certificate of Amalgamation dated January 1, 1996, amalgamating the Company with its wholly-owned subsidiary, Mercury Graphics Corporation;

(l) by Certificate of Amendment dated May 28, 1996, changing its name to MDC Communications Corporation and consolidating its share capital, Class A Subordinate Voting Shares and Class B Shares, on a one-for-six basis;

(m) by Certificate of Amalgamation dated January 1, 1999, amalgamating the Company with its wholly-owned subsidiary, MDC D&H Regal Inc.;

(n) by Certificate of Amendment dated May 28, 1999, changing its name to MDC Corporation Inc.;

(o) by Certificate of Amendment dated March 16, 2000, creating the third series of preference shares of the Company, designated as "CyberSight-MDC Exchangeable Preference Shares" and fixing the rights, privileges, restrictions and conditions attaching thereto; and

(p) by Certificate of Amalgamation dated January 1, 2004, amalgamating MDC Corporation Inc. with its wholly-owned subsidiary, MDC Partners Inc.

PRINCIPAL OPERATING SUBSIDIARIES

The following are the principal operating subsidiaries and affiliates of the Company together with the percentage of voting securities/interests thereof which are owned, directly or indirectly, by the Company as of December 31, 2003 and the jurisdiction of incorporation/formation of each:

| Name of Subsidiary or Affiliate ----- | Percentage of Voting Securities/Interests ----- | Jurisdiction of Incorporation/ Formation ----- |
|--|---|---|
| Ashton-Potter Canada Ltd. | 100.0 | Ontario |
| Ashton-Potter (USA) Ltd. | 100.0 | Delaware |
| Computer Composition of Canada Inc. | 100.0 | Ontario |
| Metaca Corporation | 100.0 | Ontario |
| Placard Pty Ltd. | 100.0 | Australia |
| Pro-Image Corporation | 100.0 | Delaware |
| Maxxcom Inc. | 100.0 | Ontario |

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| Accent Marketing Services, L.L.C. | 50.1 | Delaware |
| Accumark Promotions Group Inc. | 55.0 | Ontario |
| Allard Johnson Communications Inc. | 54.3 | Ontario |
| Ambrose Carr Linton Carroll Inc. | 100.0 | Ontario |
| Bratskier & Company, Inc. | 100.0 | New York |
| Bryan Mills Group Ltd. | 68.0 | Ontario |
| Colle & McVoy, Inc. | 100.0 | Minnesota |
| Crispin, Porter Bogusky, LLC | 49.0 | Delaware |
| Fletcher Martin Ewing LLC | 70.0 | Delaware |
| Integrated Healthcare Communications, Inc. | 70.0 | Ontario |
| Interfocus Network Limited | 100.0 | England |
| Mackenzie Marketing, Inc. | 100.0 | Delaware |
| Margeotes/Fertitta + Partners LLC | 80.0 | Delaware |
| Northstar Research Partners Inc. | 50.1 | Ontario |
| Chinnici Direct, Inc. | 100.0 | Delaware |
| Source Marketing LLC | 87.7 | New York |
| TargetCom LLC | 80.0 | Delaware |
| Veritas Communications Inc. | 58.8 | Ontario |
| 656712 Ontario Limited, o/a "Strategies International" | 85.0 | Ontario |

BUSINESS OF THE COMPANY

The Company carries on business through two operating divisions: Marketing Communications Division and Secure Products International Division.

Over the last three years, the business of the Company has developed chronologically as follows:

| Date | Development |
|-------------------|---|
| January 15, 2001 | The Company, through Maxxcom Inc., acquired 49% of Crispin Porter + Bogusky LLC ("CF+P"), a Miami-based advertising agency. |
| February 12, 2001 | The Company acquired 100% of NBS Canada Inc., the Canadian card services unit of Mist Inc., a supplier of plastic cards and personalization services to financial institutions and retailers in Canada and the United States. |

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| | |
|-------------------|---|
| February 16, 2001 | All outstanding CyberSight-MDC Exchangeable Preference Shares of the Company were exchanged into common shares of CyberSight. The Company then acquired additional shares of Cybersight. The Company issued 933,337 Class A Subordinate Voting Shares as part of the total consideration. |
| March, 1, 2001 | The Company, through Maxxcom Inc., acquired 100% of The Marketing Department LLC, a sales promotion company located in Greenwich, Connecticut. |
| April 5, 2001 | Maxxcom Inc. issued 1,333,333 common shares from treasury to 1451946 Ontario Inc., a wholly-owned subsidiary of the Company, for gross proceeds of CDN\$10,000,000. |
| June 15, 2001 | Maxxcom Inc. acquired certain assets of McCool Communications, Inc., an advertising business located in Atlanta, Georgia. |
| July 25, 2001 | The Company, through Maxxcom Inc., acquired 79.17% of Grange Advertising Limited, an advertising and direct marketing company located in London, England. |
| December 17, 2001 | MDC completed the disposition of its discontinued operations, Regal, for gross proceeds of approximately CDN\$36,000,000. |
| December 19, 2001 | The Company completed the sale of a 45.45% interest in the Canadian cheque operations of Davis + Henderson (D+H) through an income trust offering for gross proceeds of approximately CDN\$250,000,000. |
| January 10, 2002 | The Company sold an additional 4.54% interest in Davis + Henderson, Limited Partnership, through the exercise of the underwriters' over-allotment option, for gross proceeds of approximately CDN\$17,200,000. |
| April 2, 2002 | The Company sold its remaining 50.01% interest in Davis + Henderson, Limited Partnership for gross proceeds of approximately CDN\$200,000,000. |
| April 9, 2002 | The Company completed the repurchase of US\$112,500,000 of its 10.5% Senior Subordinated Notes due December 1, 2006 at 89% of the original principal amount. |
| April 30, 2002 | The Company, through Maxxcom Inc., disposed of its 100% interest in Wernimont & Paullus Inc., located in Cedar Rapids, Iowa. |
| May 30, 2002 | The Company, through Maxxcom Inc., disposed of its 100% interest in News Canada Inc., located in Toronto, Ontario. |

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| June 28, 2002 | The Company completed the sale of Ashton-Potter Packaging. |
| July 16, 2002 | Maxxcom Inc. completed a rights offering to holders of its common shares. Under the rights offering, 16,777,550 common shares were subscribed for at a price of CDN\$1.60 per share resulting in total gross proceeds of CDN\$26,844,000. MDC subscribed for its pro rata entitlement, an additional investment of CDN\$25,000,000. |
| July 19, 2002 | The Company completed the sale of A.E. McKenzie Co. Inc. for gross proceeds of approximately CDN\$8,000,000 |
| September 20, 2002 | The Company completed the sale of its U.K. stamp operations. |
| September 30, 2002 | The Company completed the divestiture of its Australian ticketing operation. |
| May 29, 2003 | The Company completed an initial public offering of Custom Direct, its U.S.-based direct-to-consumer cheque operation, through Custom Direct Income Fund (the "Fund") for gross proceeds, including the exercise of the underwriters' over-allotment option, of approximately US\$128,000,000. After this transaction, MDC owned a 29.6% interest in the Fund, and a 20% subordinated interest in Custom Direct. |
| June 30, 2003 | The Company redeemed the remaining US\$86,400,000 of its 10.5% Senior Subordinate Notes due December 1, 2006 for approximately US\$89,500,000. |
| July 31, 2003 | The Company completed the sale of its 29.6% interest in the Fund for gross proceeds of approximately US\$21,300,000. |
| July 31, 2003 | The Company acquired the remaining 26% of Maxxcom Inc. that it did not already own by way of a plan of arrangement. Pursuant to the arrangement, Maxxcom shareholders, other than MDC, received 1 MDC Class A Subordinate Voting Share for every 5.25 Maxxcom common shares they owned, resulting in the issuance by MDC of approximately 2,470,000 Class A Subordinate Voting Shares. |
| September 30, 2003 | The Company acquired the remaining 15% of Metaca Corporation that it did not already own. |
| December 8, 2003 | The Company completed the offering of 3,903,451 Adjustable Rate Exchangeable Securities due December 31, 2028 for total net proceeds of approximately CDN\$31,700,000. The securities paid interest monthly at a |

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rate equal to the actual distribution by the Fund in that month and a holder of an Exchangeable Security had the right to exchange the security for a unit of the Fund once MDC was entitled to effectively exchange its 20% ownership of Custom Direct into units of the Fund.

| | |
|-------------------|--|
| January 29, 2004 | The Company purchased a 60% interest in kirshenbaum bond + partners for cash consideration of approximately US\$21,000,000 and share consideration of approximately US\$2,029,000. |
| February 13, 2004 | The Company redeemed all of the Adjustable Rate Exchangeable Securities due December 31, 2028 for units of the Fund, divesting of its remaining 20% ownership in Custom Direct. |
| February 25, 2004 | The Company's controlling shareholder, Miles Nadal, completed the conversion of 100% of the Class B multiple voting shares of the Company owned indirectly by him into Class A Subordinate Voting Shares on a one-for-one basis, without any cash or non-cash consideration. |
| March 29, 2004 | The Company acquired an additional 39.3% ownership interest in Accent Marketing Services LLC, increasing its total ownership interest in this subsidiary from 50.1% to approximately 89.4%. |
| March 31, 2004 | The Company acquired a 19.9% interest in Cliff Freeman & Partners LLC. |

BUSINESS OPERATIONS OF THE COMPANY

MDC is a publicly traded international organization with operating units in Canada, the United States, the United Kingdom and Australia. MDC is a leading provider of marketing communications services, and secure transaction products and services, to customers in more than 60 countries. MDC carries on business through two operating divisions:

- i. Marketing Communications Division; and
- ii. Secure Products International Division

Marketing Communications Division

MDC Partners Inc. is the largest full-service marketing communications organization based in Canada. Its subsidiaries provide a comprehensive range of communications services in Canada, the United States and the United Kingdom. Marketing communication services include advertising, direct marketing, database management, sales promotion, corporate communications, marketing research, corporate identity and branding, and interactive marketing.

The Marketing Communications Division operates through its integrated communications and its specialized communications companies. The Company's integrated communications operating companies are listed below.

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Integrated Communications Companies

Companies comprising MDC's integrated communications businesses deliver solutions to clients using a variety of marketing communications services. By carefully analyzing the requirements of each client, they select and combine the relevant services to ensure consistency in the delivery of the client's image and brand. Because the integrated companies offer a full range of services, the solutions they deliver are client-based, not service-based. As a result, profitability is measured on a client basis, and not on a service basis.

The integrated communications companies of the Marketing Communications Division are listed below.

Allard Johnson Communications Inc.

In 1999, LBJ.FRB Communications Inc., a Marketing Communications Division operating company since 1992, merged with Allard et Associates Inc. to form Allard Johnson Communications Inc. ("Allard Johnson"). Allard Johnson is a Canadian integrated communications services agency, providing advertising, sales promotion, direct marketing and interactive services in the fields of consumer products, financial services, wellness and social marketing. Clients include Dairy Farmers of Canada, RBC Royal Bank and Wal-Mart.

Ambrose Carr Linton Carroll Inc.

Ambrose Carr Linton Carroll Inc. ("ACLC") is a Canadian integrated communications services agency, providing advertising, sales promotion, collateral, point-of-sale and direct marketing for a broad range of clients. Agency clients include Honda, Acura, Swiss Chalet, Hershey, Paramount Canada's Wonderland and Toshiba. MDC acquired ACLC in 1992.

Colle & McVoy, Inc.

Colle & McVoy, Inc. ("CMI") founded in 1935, is a U.S. full-service, integrated marketing communications services agency, providing business planning, advertising, corporate communications, direct response, public relations, interactive and sales productivity development services. Clients include 3M, Case New Holland, Cenex, the Minnesota Office of Tourism, Pfizer, Nestle, Purina, the Red Wing Shoe Company and Winnebago. CMI was purchased by MDC in 1999.

Cormark Communications Inc.

Cormark Communications Inc. ("Cormark") was launched in 1978 and was acquired by MDC in 1994. Cormark is a Canadian integrated communications services agency, providing advertising and direct marketing services to a wide variety of clients. Clients include Ayerst Animal Health, Bridgestone/Firestone Canada, Canadian Wheat Board, Ontario Lottery and Gaming Corporation and Northland Mall.

Fletcher Martin Ewing LLC.

Fletcher Martin Ewing LLC ("Fletcher Martin") was founded in 1979 and acquired by MDC in 1999. Fletcher Martin is a U.S. integrated communications services agency, providing strategic consulting, advertising, sales promotion and corporate communications services. Clients include Arby's, Mrs. Winner's/Lee's Chicken, Piccadilly Cafeterias, Precept Golf and the Suntory Water Group.

Interfocus Group Limited.

Interfocus Group Limited ("Interfocus") is an U.K. integrated communications services agency, providing brand and marketing consulting, advertising, design, sales promotion, direct marketing, new media and sponsorship services. Clients include Lloyds TSB, Panasonic, Scottish Life and Xerox. The Company acquired its interest in Interfocus in 2000.

Mackenzie Marketing, Inc.

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Mackenzie Marketing, Inc. ("Mackenzie Marketing") was founded in 1997 and acquired by the Company in 2000. Mackenzie Marketing is a U.S. integrated communications services agency, providing strategic consulting, advertising, sales promotion and corporate communications services to clients primarily in the financial services industry. Clients include American Express, Best buy, Blue Cross/Green Shield, Paisley Consulting, Bank One Corporation, J.P. Morgan Chase, Transamerica Financial Institutions, U.S. Bancorp and Wells Fargo.

Margeotes/Fertitta + Partners LLC.

Margeotes/Fertitta + Partners LLC ("Margeotes/Fertitta") was founded in 1973 and acquired by MDC in 1998. Margeotes/Fertitta is a U.S. integrated communications services agency, providing advertising, sales promotion and corporate communications services to clients in the packaged goods, financial services, online services and entertainment industries. Clients include Bacardi, Godiva Chocolatier, The McGraw Hill Companies, Putnam Investments and Triton PCS.

Specialized Communications Services Companies

The companies comprising the Company's specialized communications services businesses are focused on an individual marketing communications discipline. These companies are selected by clients for their depth of expertise in their respective disciplines. Specialized communications have been traditionally labeled the "below the line" component of the marketing communications services industry. The Company's specialized communications companies are listed below.

Advertising

Cliff Freeman & Partners.

Cliff Freeman & Partners, which operates with the credo "Entertainment sells," has long been recognized for its creative brilliance and has won numerous national and international advertising awards. Cliff Freeman & Partners' inspired creative and inspired ideas have consistently helped clients at critical crossroads, launching or re-launching brands in extremely competitive environments. Current and former clients include Little Caesar's, Turner Broadcasting Systems, Mohegan Sun, Designer Shoe Warehouse, Fox Sports and The Sports Authority.

Crispin Porter + Bogusky LLC.

Crispin Porter + Bogusky LLC ("Crispin Porter"), founded in 1965, is a U.S. specialized corporate communications firm, providing advertising services to a wide variety of clients. Its clients include IKEA, Sirius Satellite Radio, MINI (a division of BMW North America), Molson U.S.A., Virgin Atlantic Airways, Burger King and the American Legacy Foundation. The Company acquired its interest in Crispin Porter in 2001.

kirshenbaum bond + partners

kirshenbaum bond + partners creates creates non-traditional marketing programs for clients through four complementary units - kirshenbaum bond (advertising, with offices in New York and San Francisco), The Media Kitchen (media management), LIME Public Relations + Promotions and Dotglu (interactive and direct marketing). Current and former clients include Verizon SuperPages, The Andrew Jergens Company, Citibank, Aadvantage, Liberty Mutual, Song Airways, Timex, Vegas.com, Cisco Systems, Wyndham Hotels & Resorts, Snapple, Kenneth Cole, Coach, Hennessy, The Meow Mix Company and Target.

Direct Marketing/Database Management

Accent Marketing Services, L.L.C.

Headquartered in Jeffersonville, Indiana, and founded in 1993, Accent Marketing Services, L.L.C. ("Accent") was acquired by MDC in 1999. Accent is an international customer relationship management company that designs, develops and implements complete customer service and direct marketing campaigns to

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acquire, retain and develop its clients' customers. With six domestic customer contact centres and one near-shore location, Accent is experienced in providing world class inbound and outbound calling programs for Fortune 1000 companies worldwide. Accent focuses on delivering a value-added approach to customer lifecycle management, utilizing both the contact centre capabilities and the direct marketing/direct mail assets of the business. Clients include Sprint, Maytag, Murray Lawn Care, US Cellular and Whirlpool.

Chinnici Direct, Inc.

Founded in 1980, Chinnici Direct, Inc. ("Chinnici") is an U.S. specialized corporate communications firm, providing direct marketing servicing to a variety of industries. Clients include Barnes & Noble, Chase Manhattan Bank, CNA Insurance, Pantone and Reed Exhibitions. The Company acquired its interest in Chinnici in 2000.

TargetCom LLC.

TargetCom LLC ("TargetCom") was established in 1988. TargetCom is a U.S. specialized corporate communications firm, providing direct marketing services specializing in very targeted delivery of meaningful and relevant messages to customers. Clients include Citibank, Chicago Tribune, Cancer Treatment Centers of America, Transunion, U.S. Cellular and Spiegel. The Company acquired TargetCom in 2000.

Sales Promotion

Accumark Promotions Group Inc.

Accumark Promotions Group Inc. ("Accumark") is a Canadian specialized corporate communications firm providing promotional marketing services including strategic consulting, trade, sales force and consumer promotional programs, in-store merchandising and point-of-sale material, food service marketing and event marketing. Accumark was acquired by MDC in 1993. Clients include Campbell Soup Company, Kraft and Pfizer.

eSource Drive to Web Marketing LLC.

Launched in 2000, this start-up is focused on attracting new customers to e-commerce sites and encourages loyalty among existing customers of e-commerce brands. Its clients include TD Waterhouse.

Source Marketing LLC.

Source Marketing LLC ("Source") is a U.S. full-service marketing services firm, specializing in promotional, retail, event, direct and other business building marketing services. Clients include AOL, Chase Bank, Beiersdorf, Discovery, Time Warner Cable, Mattel, Reckitt Benckiser and Schering Plough. MDC acquired its interest in Source in 1998.

Corporate Communications

Bratskeir & Company, Inc.

Bratskeir & Company, Inc. ("Bratskeir"), established in 1989, is a U.S. specialized corporate communications firm servicing a wide variety of industries. Clients include 1-800-Flowers.com, Bristol-Myers Squibb, ConAgra, Conoco-Phillips, Fox Sports, Hasbro Toys, Maybelline, and Unilever. The Company acquired Bratskeir in 2000.

Bryan Mills Group Ltd.

Bryan Mills Group Ltd. ("Bryan Mills") is a financial communications firm which provides consulting, speaker support and logistics for investment road shows and shareholder meetings and specializes in investor relations, consulting and writing for conference call scripts, quarterly reporting, print and on-line annual reports and corporate websites. Bryan Mills is the 2003 winner of "Best

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Canadian Annual Report" and Best Canadian Annual Report for Sustainable Development Reporting." Clients include CIBC, Four Seasons Hotels, MDS, Shoppers Drug Mart, Alliance Atlantis, ATI and Dofasco. MDC acquired its interest in Bryan Mills in 1989.

Veritas Communications Inc.

Launched in 1993, Veritas Communications Inc. is a Canadian public relations and public affairs agency, providing media relations, corporate communications and government relations to organizations in the consumer, financial and health care categories. Clients include Certified Management Accountants of Canada (CMA), Lakeport Breweries Central Park Lodges and Shire BioChem.

Research and Consulting

Integrated Healthcare Communications, Inc. Integrated Healthcare Communications, Inc. ("IHC") is a Canadian specialized corporate communications firm, providing continuing medical education services to physicians, other health care providers and consumers of health care services for health care clients. Clients include GlaxoSmithKline, Merck, Pfizer and Wyeth-Ayerst. IHC joined the Company in 1997.

Northstar Research Partners Inc.

Northstar Research Partners Inc. ("Northstar") was founded in 1998 and was acquired by MDC in 1998. Northstar is a firm that provides market research and consulting services to a select group of international clients.

Branding and Corporate Identity

Strategies International

Founded in 1986 and acquired by MDC in 1992, Strategies International ("Strategies") is a Canadian brand and corporate identity company, specializing in brand and corporate identity services, including packaging, branding, naming, signage and collateral materials. Clients include Tim Hortons, Parmalat North America, McNeil Consumer Healthcare, Heinz, Moosehead Breweries, Scott Paper Limited, Revlon Canada, Ganong Bros., Limited, Shur Gain Pet Food and Atlas Wine Merchants.

Other Companies

Computer Composition of Canada Inc.

Computer Composition of Canada Inc. ("Computer Composition") is an information processing company which performs data-based management, information processing, desktop publishing, text storage and typesetting activities. Computer Composition's text storage and typesetting technology allows it to produce journals, books and other documents for the legal and specialty publishing industry. Computer Composition has been in business since 1982.

Pro-Image Corporation

This company serves the U.S. market and specializes in pre-press services for publishers of educational, engineering and reference textbooks as well as technical and medical journals.

Secure Products International Division

The Secure Products International Division provides security products and services in three primary areas: electronic transaction products, such as credit, debit, telephone and smart cards; secure ticketing products, such as airline, transit and event tickets; and stamps, both postal and excise.

Electronic Transaction Products

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Metaca Corporation provides security card manufacturing and personalization for plastic and smart card programs. With operations in both Canada and Australia, MDC is a market leader in card solutions for a broad range of business segments including banks, credit card companies, long distance and mobile telecommunication providers, insurance companies and governments. The Australian operations consist of Placard Pty Ltd.

Secure Ticketing Products

MDC participates in the global secure ticketing business through its Canadian operation Mercury Graphics. Mercury Graphics manufactures secure ticketing products in three major industry segments: airline, transit and event ticketing. Mercury's clients include Air Canada, British Airways, Northwest Airlines, Virgin Atlantic Airways, Toronto Transit Commission, BC Transit, Tampa Bay Buccaneers, Detroit Red Wings, Chicago Bulls, Boston Celtics, Los Angeles Dodgers and San Francisco 49ers.

Stamps

The MDC stamp companies, consisting of Ashton-Potter (USA) Ltd. and Ashton-Potter Canada Limited, comprise one of the world's largest private sector manufacturers of postage stamps. The group has a long-term contract with the United States Postal Service (USPS) and produces definitive and commemorative products for Canada Post Corporation. A contract award from the USPS in 2003 establishes Ashton-Potter (USA) Ltd. as one of three private sector providers, resulting in dramatic volume increases. A large investment in equipment and technology has been made to meet these demands, positioning MDC as an industry leader in stamp production.

Financial Information Relating to Principal Business Categories

The following table is illustrative of the approximate percentage of consolidated revenues received by the Company in each of its continuing principal business categories:

| Principal Business Category | Percentage of Company's Consolidated Sales for the Fiscal Year Ended | | |
|--|--|----------|-------|
| | 2003 | 2002 | 2001 |
| | ---- | ---- | ---- |
| | (| Restated |) |
| Marketing Communications Division | 62% | 43% | 35% |
| Secure Products International Division | 37% | 55% | 60% |
| Corporate and Other | 1% | 2% | 5% |
| | ---- | ---- | ---- |
| | 100% | 100% | 100% |
| | ===== | ===== | ===== |

Competition

Marketing Communications Division

The marketing communications industry is highly competitive. Management believes that the Perpetual Partnership(TM) model, including the value-creating capabilities of its corporate resources and the service composition of its various operating companies, provide the Company with a competitive advantage in the industry.

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The operating companies of the Marketing Communications Division compete for acquisitions in the highly fragmented marketing and communications industry with large global consolidators such as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP Group plc, Publicis Group SA and Havas Advertising. MDC relies on the attributes of its Perpetual Partnership(TM) business model, including the opportunity for owners to maintain equity in the operating business and operational independence, to compete for and attract new acquisitions and to attract and retain experienced and talented professional staff.

Each of the operating companies within the Marketing Communications Division face competition from large multinational marketing communications companies operating in Canada and/or the United States, as well as numerous smaller agencies that only operate in one or more countries or local markets. The Company's operating companies must compete with these other companies to maintain existing client relationships and to obtain new clients and assignments.

The Company's operating companies compete at this level by identifying and developing sectors or niches which have historically been underserved by other marketing communications companies. These niches include the regional operations of multinational corporations and national companies with mid-sized marketing budgets.

The Company's integrated communications services companies compete principally by offering clients integrated solutions and managing a client's brand consistency across a broad range of communications services including both advertising and non-traditional services. The specialized communications companies compete principally by offering clients depth of expertise in a specialized marketing communications discipline. MDC also benefits from two-way referrals and cross-selling of services based on expertise, and the complexity and service scope of client requirements.

A company's ability to compete for new clients is affected in some instances by the policy, which many advertisers and marketers follow, of not permitting their agencies to represent competitive accounts in the same market. As a result, increasing size may limit a company's ability to compete for certain new clients. In the vast majority of cases, however, MDC's consistent maintenance of separate, independent operating companies has enabled the Company to represent competing clients.

Secure Products International Division

Competition in the Company's markets is primarily dependent upon quality, reliability and service. Price is also an important criteria, but is secondary to the initial requirement for a supplier to satisfy a potential customer that it has the proven ability to meet the primary criteria.

In both Canada and the United States, government and public corporation security products are generally awarded on the basis of competitive bidding procedures through Requests for Proposals (RFP's). These RFP's require a bidder to provide detailed information regarding price, security, manufacturing capabilities and quality control processes. These RFP submissions form the basis for the awarding of contracts. Contracts are generally awarded on a multi-year basis.

MDC is one of the largest suppliers in the Canadian card market and the number two supplier in the Australian card market. MDC's secure ticketing business has the number two market share position in secure ticketing products in North America. MDC is also one of the largest private sector stamp suppliers world-wide.

Industry Trends

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Marketing Communications Division

Significant trends exist in the marketing communications industry. Historically, advertising has been the primary service provided by the industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized communications services are consuming a growing portion of marketing dollars. This is increasing the demand for a broader range of services particularly "below the line" or "non-traditional" services. As well, there is an increasing need for consistent brand communication in response to increased competition from globalization and deregulation.

Large multinational organizations have shown a tendency towards consolidation of their marketing communications providers into one firm that provides services to all international locations. As a result, communications and marketing services providers with a broader geographical scope that better positions them to provide services that meet these needs may be more successful at maintaining existing or winning new business.

The Company's success in this environment has been in the past and is expected to continue to be dependent on the ability to retain and attract key executive and management personnel and employees, to maintain relationships with existing clients and successfully bid on new business, and to staff projects with the expertise required.

Secure Products International Division

The continuing growth expected in the areas of e-commerce and the Internet and the imminence of the "smart card" revolution are anticipated to positively impact MDC.

In April 2003, it was announced Ashton-Potter (USA) Ltd. had been awarded a long-term contract by the United States Postal Service ("USPS") to provide definitive and commemorative postage stamp products. The USPS awarded production of all U.S. postage stamp products to three successful suppliers. The three master contracts awarded are for the printing, finishing and packaging of U.S. postage stamps with an initial base term of four years and have an aggregate estimated value (for all three contractors) of US\$229 million. In addition, there are also three two-year options to the base contracts for a potential contractual term of 10 years. If all the option years are exercised, the potential value of the three contracts over the 10 years would be US\$572.5 million. This contract award positions Ashton-Potter as one of the largest producers of postage stamps in the world.

Employees

As at December 31, 2003, the Company and its subsidiaries had approximately 3,200 employees.

Risks

Pages 21 to 23 of the Company's 2003 Annual Report entitled "Risks and Uncertainties" of the "Management's Discussion and Analysis" are hereby incorporated herein by reference. The "Management Discussion and Analysis" is available on SEDAR at www.sedar.com.

DIVIDENDS

The Company has not declared nor paid any dividends on its Class A Subordinate

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Voting Shares since its incorporation. It is the present policy of the Company to retain all earnings to support the growth of its various businesses. Accordingly, it is expected that no dividends will be paid by the Company on the Class A Subordinate Voting Shares in the foreseeable future. Any future payment of dividends will be determined by the board of directors of MDC on the basis of the Company's earnings, financial requirements and other relevant factors.

CAPITAL STRUCTURE

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pages 13 to 24 of the Company's 2003 Annual Report entitled "Management's Discussion and Analysis" are hereby incorporated herein by reference. The "Management Discussion and Analysis" is available on SEDAR at www.sedar.com.

MARKET FOR SECURITIES OF THE COMPANY

The Company's outstanding Class A Subordinate Voting Shares are listed and posted for trading on the Toronto Stock Exchange in Canada and on the Nasdaq National Market in the United States. The Company's outstanding Convertible Debentures are listed and posted for trading on the Toronto Stock Exchange.

DIRECTORS AND OFFICERS

The section entitled "Election of Directors" contained on pages 4 to 6 of the Company's Management Information Circular dated April 30, 2004 for use in connection with the Company's annual and special meeting of shareholders to be held on June 9, 2004, is hereby incorporated herein by reference. The Company's Management Information Circular is available on SEDAR at www.sedar.com.

The following table sets forth certain information with respect to each of the officers of the Company:

| Name and Municipality of Residence | Office |
|---|--|
| Miles S. Nadal Nassau, Bahamas | Chairman, President and Chief Executive Officer |
| Peter M. Lewis Toronto, Ontario | Vice Chairman |
| Graham L. Rosenberg Toronto, Ontario | Managing Director |
| Robert E. Dickson Toronto, Ontario | Managing Director |

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| | |
|--|--|
| Walter Campbell Ajax, Ontario | Chief Financial Officer and Corporate Secretary |
| Charles K. Porter Miami, Florida | Chief Strategist |
| Glenn Gibson Richmond Hill, Ontario | Senior Vice President, Finance |
| Stephanie Ivy Oshawa, Ontario | Vice President, Finance |
| Maria Pappas Toronto, Ontario | Assistant Secretary |

As of April 30, 2004, the directors and officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over approximately 22% of the outstanding Class A Subordinate Voting Shares and none of the outstanding Class B Shares.

CONFLICTS OF INTEREST

Certain directors of the Company provide services from time to time to the Company and its subsidiaries. If a director of the Company has an actual conflict of interest with respect to a particular matter resulting from his relationship with the Company or a subsidiary of the Company, such director would be required to declare such interest and, in most instances, abstain from voting in connection with such matter.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, 10% securityholders, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's Management Information Circular dated April 30, 2004, which involves the election of directors. The Company's Management Information Circular is available on SEDAR at www.sedar.com. Additional financial information is provided in the Company's comparative financial statements for 2003. A copy of such documents may be obtained upon written request from the Secretary of the Company.

The Company will provide to any person or company upon request to the Corporate Secretary of the Company:

(a) when the securities of the Company are in the course of distribution under a preliminary short form prospectus or a short form prospectus:

(i) one copy of the Company's annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

(ii) the comparative consolidated financial statements of the Company for the Company's most recently completed financial year together with the accompanying report of the Company's auditors thereon;

(iii) one copy of any interim financial statements of the Company subsequent to the financial statements of the Company's most recently completed financial year;

(iv) one copy of the information circular of the Company in respect of the Company's most recent annual meeting of shareholders that involved the election

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of directors; and

(v) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iv) above; or

(b) at any other time, one copy of any other documents referred to in (a) (i), (ii), (iii) and (iv) above, provided the Company may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Company.

Document No. 2

MDC PARTNERS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

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AUDITORS' REPORT

TO THE DIRECTORS OF
MDC PARTNERS INC.

We have audited the consolidated balance sheets of MDC Partners Inc. as at December 31, 2003, 2002 and 2001 and the consolidated statements of retained earnings, operations and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. 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

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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 December 31, 2003, 2002 and 2001 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

As described in Note 1 to these consolidated financial statements, these consolidated financial statements have been restated.

Chartered Accountants

Toronto, Ontario

May 3, 2004 (December 14, 2004 as to the effects of the restatements described in Note 1)

| | | MDC Partners Inc. | | |
|--|-------|--------------------------------|------------|-------|
| | | Consolidated Balance Sheet | | |
| | | (in thousands of U.S. dollars) | | |
| December 31 | ----- | 2003 | 2002 | ----- |
| | | Restated | Restated | ----- |
| | | See Note 1 | See Note 1 | ----- |
| Assets | | | | |
| Current | | | | |
| Cash and cash equivalents | | \$ 71,600 | \$ 37,437 | \$ |
| Accounts receivable (Note 5) | | 80,295 | 66,789 | |
| Inventory | | 7,735 | 7,929 | |
| Prepaid expenses and sundry | | 5,043 | 6,261 | |
| Future income taxes | | - | - | |
| | | ----- | ----- | |
| | | 164,673 | 118,416 | |
| Capital and other assets (Note 6) | | 80,438 | 80,048 | |
| Goodwill (Note 7) | | 101,779 | 185,529 | |
| | | ----- | ----- | |
| | | \$ 346,890 | \$ 383,993 | \$ |
| | | ===== | ===== | ===== |
| Liabilities and Shareholders' Equity | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | | \$ 89,606 | \$ 82,251 | \$ |
| Deferred acquisition consideration | | 1,113 | 23,966 | |
| Deferred revenue | | 16,304 | 13,044 | |
| Current portion of long-term indebtedness (Note 8) | | 18,646 | 4,088 | |
| | | ----- | ----- | |
| | | 125,669 | 123,349 | |
| Long-term indebtedness (Note 8) | | 102,112 | 155,514 | |
| | | ----- | ----- | |
| | | 227,781 | 278,863 | |
| | | ----- | ----- | |
| Minority interest | | 2,432 | 9,705 | |

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| | | | |
|---|------------|------------|----|
| Shareholders' equity | | | |
| Share capital (Note 9) | 117,292 | 96,407 | |
| Contributed surplus (Note 10) | 4,610 | - | |
| Other paid-in capital (Note 11) | 30,851 | 24,179 | |
| Cumulative translation adjustment (Note 12) | (2,365) | 7,858 | |
| Retained earnings (deficit) | (33,711) | (33,019) | |
| | ----- | ----- | |
| | 116,677 | 95,425 | |
| | ----- | ----- | |
| | \$ 346,890 | \$ 383,993 | \$ |
| | ===== | ===== | == |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

On behalf of the Board:

Director

Thomas N. Davidson

Director

Guy P. French

MDC Partners Inc.
Consolidated Statements of
Retained Earnings (Deficit)
(in thousands of U.S. dollars)

| For the years ended December 31 | 2003 | 2002 | 2001 |
|---|------------------------|------------------------|------------------------|
| ----- | ----- | ----- | ----- |
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| | ----- | ----- | ----- |
| Retained earnings (deficit), beginning of year as previously reported | \$ (31,694) | \$ (46,105) | \$ 45,300 |
| Impact of change in accounting for foreign currency translation (Note 2) | - | (15,470) | (6,732) |
| Impact of transitional goodwill impairment charge (Note 2) | - | (62,477) | - |
| Impact of change in revenue recognition policy (Note 1(4)) | (1,325) | (2,251) | (1,734) |
| Opening retained earnings (deficit), as restated | (33,019) | (126,303) | 36,834 |
| Net income (loss) for the year | 5,916 | 94,260 | (99,227) |
| | (27,103) | (32,043) | (62,393) |
| Premium paid on repurchase of Class A shares | (5,531) | - | - |
| Allocation to other paid-in capital, net of income tax recovery of \$615 (2002 - \$616, 2001 - \$1,139) | (1,077) | (976) | (1,433) |

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| | | | |
|--|-------------|-------------|-------------|
| Retained earnings (deficit), end of year | \$ (33,711) | \$ (33,019) | \$ (63,826) |
|--|-------------|-------------|-------------|

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

| For the years ended December 31 | MDC Partners Consolidated Statements (in thousands of U.S. dollars) except per share | |
|--|---|------------------------|
| | 2003 | 2002 |
| | Restated See Note 1 | Restated See Note 1 |
| Gross billings | \$ 548,530 | \$ 599,699 |
| Revenues | \$ 304,936 | \$ 387,191 |
| Operating costs | 274,039 | 332,455 |
| Operating income before other income (charges) | 30,897 | 54,736 |
| Other income (charges) | | |
| Net gain (loss) on asset dispositions and other charges (Note 13) | 11,464 | 97,288 |
| Unrealized foreign exchange gain (loss) | (2,023) | 4,380 |
| Amortization | (10,362) | (14,119) |
| Amortization of deferred finance charges | (2,225) | (2,030) |
| Interest, net | (11,498) | (17,814) |
| Income participation of minority partners (Note 14) | (5,489) | (3,228) |
| | (20,133) | 64,477 |
| Income (loss) before income taxes, goodwill charges equity in affiliates and minority interest | 10,764 | 119,213 |
| Income taxes (recovery) (Note 15) | 7,742 | 21,921 |
| Income (loss) before goodwill charges, equity in affiliates and minority interest | 3,022 | 97,292 |
| Equity in affiliates | 1,850 | |
| Goodwill charges, net of income tax recovery of \$Nil (2002 - \$Nil, 2001 - \$2,306) | - | - |
| Minority interest (recovery) | (1,044) | 3,032 |
| Income (loss) from continuing operations | 5,916 | 94,260 |
| Loss from discontinued operations (Note 16) | - | - |
| Net income (loss) for the year | \$ 5,916 | \$ 94,260 |
| Earnings per share (Note 17) | | |
| Income (loss) from continuing operations | | |
| Basic | \$ 0.27 | \$ 5.51 |

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| | | |
|-------------------|---------|---------|
| Diluted | ===== | ===== |
| | \$ 0.26 | \$ 3.73 |
| | ===== | ===== |
| Net income (loss) | | |
| Basic | \$ 0.27 | \$ 5.51 |
| | ===== | ===== |
| Diluted | \$ 0.26 | \$ 3.69 |
| | ===== | ===== |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

| MDC Partners Inc. Consolidated Statements of Cash Flows (in thousands of U.S. dollars) | | | |
|---|------------------------|------------------------|------------------------|
| For the years ended December 31 | 2003 | 2002 | 2001 |
| ----- | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| ----- | ----- | ----- | ----- |
| Cash provided by (used in) | | | |
| Operating activities | | | |
| Income (loss) from continuing operations | \$ 5,916 | \$ 94,260 | \$ (73,799) |
| Items not involving cash | | | |
| Asset dispositions and other charges | (26,950) | (102,385) | 107,002 |
| Stock-based compensation | 6,182 | - | - |
| Other charges - accrued (paid) | - | (3,545) | 7,653 |
| Unrealized foreign exchange loss (gain) | 2,023 | (4,380) | 12,034 |
| Goodwill writedown | 10,012 | - | 32,579 |
| Amortization | 12,587 | 16,149 | 36,606 |
| Future income taxes | 6,612 | 20,870 | (21,045) |
| Interest capitalized | 4,557 | 3,368 | - |
| Earnings of affiliates, net of distributions of \$2,283 | 433 | - | - |
| Minority interest and other | (1,227) | (129) | (3,869) |
| | ----- | ----- | ----- |
| Changes in non-cash working capital | (2,184) | 1,123 | (3,246) |
| Cash flows from operating activities | ----- | ----- | ----- |
| | 17,961 | 25,331 | 93,915 |
| Investing activities | | | |
| Proceeds on dispositions (acquisitions), net | 88,440 | 161,302 | (16,884) |
| Capital assets, net | (18,383) | (8,070) | (16,209) |
| Other assets, net | 4,541 | (1,639) | (20,407) |
| Cash flows from (used in) investing activities | ----- | ----- | ----- |
| | 74,598 | 151,593 | (53,500) |
| Financing activities | | | |
| Proceeds on issuance of long-term indebtedness | 37,472 | 5,955 | 87,229 |
| Repayment of long-term indebtedness | (90,784) | (188,521) | (125,529) |
| Issuance of share capital | 3,031 | - | 732 |
| Repurchase of share capital | (13,662) | - | (6,727) |

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| | | | |
|--|------------|-----------|-----------|
| Cash flows used in financing activities | (63,943) | (182,566) | (44,295) |
| Foreign exchange gain on cash held in foreign currencies | 5,547 | 6,092 | 166 |
| Increase (decrease) in cash and cash equivalents during the year | 34,163 | 450 | (3,714) |
| Cash and cash equivalents, beginning of year | 37,437 | 36,987 | 40,701 |
| Cash and cash equivalents, end of year | \$ 71,600 | \$ 37,437 | \$ 36,987 |
| Supplemental cash flow information | | | |
| Cash paid for interest | \$ 7,136 | \$ 16,310 | \$ 33,232 |
| Cash paid (recovered) for income taxes | \$ (2,087) | \$ (380) | \$ 6,385 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MDC PARTNERS INC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 2003, 2002 AND 2001

NATURE OF BUSINESS

MDC Partners Inc., formerly MDC Corporation Inc., is incorporated under the laws of Ontario. The Company commenced using the name MDC Partners Inc. on November 1, 2003 and legally changed its name through amalgamation with a wholly-owned subsidiary on January 1, 2004. The Company's operations are in primarily two business segments - Marketing Communications and Secure Products International.

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of the Company and any effectively controlled subsidiary companies and are prepared in conformity with generally accepted accounting principles in Canada. Interests in joint ventures are recorded using the proportionate consolidation method. Acquisitions are consolidated from the effective date of acquisition with intercompany transactions and accounts eliminated upon consolidation.

INVESTMENTS

Investments in which the Company does not have control or have significant influence are valued at the lower of cost or market.

The equity method is used to account for investments in entities in which the

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Company has an ownership interest of less than 50% and has significant influence, or joint control over the operating and financial policies of the affiliate; or has an ownership interest of greater than 50% but does not have unilateral control over, the operating and financial policies of the affiliate. The Company's management periodically evaluates these investments to determine if there have been any, other than temporary, declines in value.

INVENTORY

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

CAPITAL ASSETS

Capital assets are recorded at cost.

Amortization is provided as follows:

| | |
|----------------------------------|--|
| Buildings | - 4-5% straight-line |
| Computer, furniture and fixtures | - 20-50% declining balance |
| Machinery and equipment | - 10-20% declining balance |
| Leasehold improvements | - straight-line over term of the lease |

DEFERRED CHARGES

The Company capitalizes direct costs related to development of new products and services until the commencement of commercial operations, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

DEFERRED

FINANCE COSTS Deferred finance costs are amortized over the term of the related indebtedness.

FUTURE INCOME TAXES

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

MDC PARTNERS INC. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 2003, 2002 AND 2001

FOREIGN CURRENCY

TRANSLATION

Historically, the Company's consolidated financial statements have been presented

in Canadian dollars. In order to more fully reflect the U.S. nature of the Company's business and shareholder base, and to improve investors' ability to compare the Company's results with those of most other publicly traded businesses in the marketing communications industry, which also report in U.S. dollars, the U.S. dollar was adopted as the Company's reporting currency effective September 30, 2003. The functional currencies of each of the Company's operations are unchanged. The consolidated financial statements and notes thereto have been restated in U.S. dollars for all periods presented.

With the exception of the Company's foreign subsidiaries, foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the year end; other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction; long-term monetary assets and liabilities with a fixed term which have been hedged are translated using the rate per the hedge agreements; revenue and expense items are translated at the average monthly rate of exchange for the year, except for amortization of capital and other assets which is translated at the historical rates of the related assets. The asset and liability accounts of foreign subsidiaries self-sustaining operations are translated using the rate of exchange in effect at the year end and revenues and expenses are translated at the average monthly rates during the year.

The unrealized foreign exchange gains and losses on translation of the accounts of foreign subsidiaries are reflected as a separate component of shareholders' equity. These exchange gains and losses are not included in earnings unless they are actually realized through a reduction in the Company's net investment in the foreign subsidiary.

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting for foreign exchange gains or losses relating to translation of non-hedged long-term monetary assets and liabilities. Previously such gains or losses were deferred and amortized over

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the remaining term of the related assets or liabilities. The Institute now requires that exchange gains or losses arising on translation of all non-hedged monetary items be included in the determination of net income for the current period. The accounting policy change has been applied retroactively with restatement of prior periods as recommended by the CICA (see note 2).

MDC PARTNERS INC. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 2003, 2002 AND 2001

FOREIGN CURRENCY

TRANSLATION (CONTINUED)

Effective July 1, 2002, management designated the Company's 10.5% U.S. Senior Subordinated Notes ("Notes") as a hedge against the foreign exchange exposure of the Company's net investment in its US operation, Custom Direct Inc. The hedge is applied prospectively from the effective date whereby any foreign exchange translation adjustment of the Notes will reduce any offsetting foreign exchange translation adjustment of the U.S. operations, the net of which is reflected in the cumulative translation account within shareholders' equity.

Gains and losses arising from the Company's foreign currency transactions are reflected in net earnings immediately, other than those arising from intercompany foreign currency transactions that are of a long-term nature (that is settlement is planned or anticipated in the future) which are included as cumulative translation adjustments.

GOODWILL

Goodwill represents the price paid for acquisitions in excess of the fair market value of net assets acquired. Effective January 1, 2002, the Company adopted the recommendations of the CICA with respect to goodwill and other intangibles. These standards require that goodwill and other intangible assets determined to have indefinite lives are no longer amortized but tested for impairment on adoption of the standard and at least annually thereafter. Transitional impairment tests for goodwill were completed as at June 30, 2002 and, as a result, a transitional impairment loss was charged to opening retained earnings (see note 2). Prior to 2002, the Company amortized goodwill on a

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straight-line basis over periods ranging from 10 to 40 years. Goodwill arising on acquisitions completed after June 30, 2001 was not amortized.

REVENUE RECOGNITION

The Company generates services revenue from its Marketing Communications reportable segment and product revenue from its Secure Products reportable segment.

Marketing Communications

Substantially all of the Marketing Communications reportable segment revenue is derived from fees for services. Additionally, the Company often earns commissions based upon the placement of advertisements in various media. Generally, the Company acts as agent for its customers and records revenue equal to the net amount retained. Revenue is realized when the service is performed in accordance with the terms of each client arrangement and upon completion of the earnings process. This includes when services are rendered, upon presentation date to the public for media, when costs are incurred for radio and television production and when print production is completed and collection is reasonably assured and all other revenue recognition criteria have been met.

A small portion of the Company's contractual arrangements with clients includes performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company recognizes the incentive portion of revenue under these arrangements when specific quantitative goals are achieved, or when performance against qualitative goals is determined by the Company's clients.

Secured Products

Substantially all of the Secured Products International reportable segment revenue is derived from the sale of products. The Company has the following revenue recognition policies.

Revenue derived from the stamp operations is recognized upon shipment or upon delivery of the product to the customer when the Company's obligations under the contractual arrangements are completed,

the customer takes ownership and assumes the risk of loss of the product, the selling price is determined and the collection of the related receivable is probable. The Company performs extensive quality control testing procedures prior to shipment to ensure that its contractual obligations are met. Under these contractual arrangements, the Company has the ability to recover any costs incurred to date under possible termination of the contract, accordingly the Company accounts for the manufacturing costs incurred as inventory work-in-progress, until completion of production.

Revenue derived from secured printing arrangements whereby the Company manufactures and stores the printed product for a period of time at the direction of its customer is recognized when the customized printed products moves to the secure storage facility and the printing process is complete and when title transfers to the customer. The Company has no further obligations under

the printing segment of the arrangement. The Company recognizes the storage fee revenue when the customized printed products are delivered to the customer's premises. Although amounts are generally not billed by the Company until the customized print product is delivered to the customer's premises, collection of the entire consideration is due under certain contracts within 90 days of completion of the printing segment of the arrangement. Under certain other printing contracts, title of the printed product does not pass when the customized printed product is moved to the secure storage facility and that the sales price is not payable until final delivery is made to the customer's premises, accordingly revenue is not recognized until final delivery occurs consistent with SAB 101 and SAB 104. Costs under these secured printing arrangements continue to be expensed as incurred.

Revenue derived from the design, manufacturing, inventory management and personalization arrangements of secured cards is recognized as a single unit of accounting when the secured card is shipped to the cardholder and the Company's service obligations to the card issuer are complete under the terms of the contractual arrangement and the total selling price related to the card is known

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and collection of the related receivable is probable. Any amounts billed and/or collected in advance of this date is deferred and recognized at the shipping date. Under these contractual arrangements, the Company has the ability to recover any costs incurred to date under possible termination of the contract, accordingly the Company accounts for the effect of costs incurred related to design, manufacturing, and service relative to the secured card arrangement as inventory work-in-progress related to the arrangements.

MDC PARTNERS INC. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 2003, 2002 AND 2001

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term indebtedness and derivative financial instruments. The Company has used derivative financial instruments to manage its exposure to market risks relating to interest rates and foreign currency exchange rates. At December 31, 2003, the Company was not party to any derivative financial instrument.

CREDIT RISK

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and derivative financial instruments. The Company, in its normal course of business, is exposed to credit risk from its customers.

FAIR VALUE

The fair value of long-term indebtedness (see note 8) that bears interest at fixed rates is based on its quoted market price or on discounted future cash flows using rates currently available for debt of similar terms and maturities if the quoted market price was not available. The fair value of other financial instruments, cash and short-term investments, accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximates carrying value due to their short-term maturities.

INTEREST RATE RISK

The Company's principal exposure to interest rate fluctuations is with respect to certain of its long-term indebtedness, which bear interest at floating rates.

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CASH AND CASH EQUIVALENTS

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash or cash equivalents.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

MDC PARTNERS INC. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 2003, 2002 AND 2001

STOCK-BASED COMPENSATION

Effective January 1, 2002, the Company adopted the recommendations of the CICA with respect to stock-based compensation and other stock-based payments. These standards require that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations, and encourages, but does not require, the use of the fair value method for all other types of employee stock-based compensation plans.

During the fourth quarter of 2003, the Company decided to adopt the fair value based method of accounting for all its stock-based compensation. The Company adopted these changes using the prospective application transitional alternative. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after January 1, 2003. When the awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus when costs were charged against income or acquisition consideration.

Prior to January 1, 2003, the Company did not use the fair value method to account for employee stock-based compensation plans but disclosed pro forma information for options granted after January 1, 2002 (see note 9). Furthermore the Company recorded no compensation expense when options were issued to employees, and any consideration paid by employees on the exercise of options was credited to share

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capital.

ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF U.S. DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002, 2001

1. RESTATEMENT OF FINANCIAL STATEMENTS

In preparing the financial statements for the three and nine-month periods ended September 30, 2004, the Company determined that its previously filed audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 and its previously issued interim unaudited condensed consolidated financial statements for the three months ended March 31, 2004 and 2003 and the interim unaudited condensed consolidated financial statements for the three and six months ended June 30, 2003 and 2004 required restatements.

Restatement adjustments included the following: (1) the correction of the acquisition of the 26% minority interest in Maxxcom Inc.; (2) corrections in the timing of the write-off of deferred financing fees, (3) to correct the calculation of the gain on disposal of an asset and related income taxes, (4) correction of revenue recognition guidance related to certain contract terms, (5) corrections to the accounting for certain investments, (6) the correction of the accounting for foreign exchange gains and losses on intercompany balances, (7) the correction of the accounting for stock-based compensation, and (8) corrections to the computation of the dilutive effect of convertible debentures on diluted earnings per share.

The following presents the impact on revenues and net income (loss) of the restatement adjustments for the years ended December 31, 2003, 2002 and 2001:

| | 2003 | 2002 | 2001 |
|---|------------|------------|-------------|
| | ----- | ----- | ----- |
| Revenues: | | | |
| As previously reported | \$ 312,716 | \$ 387,765 | \$ 509,747 |
| Adjustments | (7,780) | (574) | (5,221) |
| | ----- | ----- | ----- |
| As restated | \$ 304,936 | \$ 387,191 | \$ 504,526 |
| | ===== | ===== | ===== |
| Income (Loss) from Continuing Operations: | | | |
| As previously reported | \$ 11,042 | \$ 93,334 | (\$ 73,282) |
| Adjustments | (5,126) | 926 | (517) |
| | ----- | ----- | ----- |

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| | | | |
|------------------------------------|-----------|-----------|-------------|
| As restated | \$ 5,916 | \$ 94,260 | (\$ 73,799) |
| | ===== | ===== | ===== |
| Loss from Discontinued Operations: | | | |
| As previously reported | - | - | (\$ 25,428) |
| Adjustments | - | - | - |
| | ----- | ----- | ----- |
| As restated | - | - | (\$ 25,428) |
| | ===== | ===== | ===== |
| Net Income (Loss): | | | |
| As previously reported | \$ 11,042 | \$ 93,334 | (\$ 98,710) |
| Adjustments | (5,126) | 926 | (517) |
| | ----- | ----- | ----- |
| As restated | \$ 5,916 | \$ 94,260 | (\$ 99,227) |
| | ===== | ===== | ===== |

The following presents details by category, aggregating to the net change in net income (loss) resulting from restatement adjustments for the years ended December 31:

| | 2003 | 2002 | 2001 |
|--|------------|--------|----------|
| | ----- | ----- | ----- |
| Acquisition accounting | (\$ 1,611) | \$ - | \$ - |
| Deferred financing fees | 3,085 | - | - |
| Gain on disposition | (3,301) | - | - |
| Gain | (1,940) | - | - |
| Income taxes | (1,361) | - | - |
| Revenue recognition | (545) | 926 | (517) |
| Accounting for foreign exchange | (2,023) | - | - |
| Accounting for investments | (433) | - | - |
| Accounting for stock-based compensation | (298) | - | - |
| | ----- | ----- | ----- |
| Net increase (decrease) in net income (loss) | (\$ 5,126) | \$ 926 | (\$ 517) |
| | ===== | ===== | ===== |

Descriptions of the categories of restatement adjustments to the Company's net income (loss) for the years ended December 31, 2003, 2002 and 2001 are set forth below:

1. Acquisition Accounting. The correction of the accounting for the acquisition of the 26% minority interest holding of Maxxcom Inc. by the Company in the third quarter of 2003, specifically correctin the recognition of stock based compensation pursuant to CICA, Section 3870 "Stock-based Compensation and Other Stock-based Payments" and SFAS 123 "Accounting for Stock Based Compensation" related to stock option remeasurement required on the issuance of vested and unvested options of the Company in exchange for vested and unvested stock options of Maxxcom Inc, and severance costs previously capitalized in goodwill. These corrections increased salary and related costs, reducing operating profit (loss) and reduced net income (loss) for the year ended December 31, 2003, 2002 and 2001 by \$1,611 with the net effect being an decrease in goodwill of \$2,168 and an increase in contributed surplus of \$1,040 as at December 31, 2003;
2. Deferred Financing Fees. The correction of the timing of the write-off of deferred financing fees, which were written off in 2003 in anticipation of the refinancing of debt rather than at the date the

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debt was repaid in 2004. This correction reduced the loss on the write off of deferred financing fees included in net gain (loss) in asset dispositions by \$3,085, resulting in an increase in net income of \$3,085 for the year ended December 31, 2003 and an increase in other assets of \$3,085 as at December 31, 2003..

3. **Gain on Disposition.** To correct an error made in the calculation of the reported net gain on asset disposition and other charges related to the 2003 disposition of 80% of the Company's interest in Custom Direct, Inc., including a reduction in a future income tax benefit previously recognized. This correction reduced the gain on sale of assets and net income by \$1,940, for the year ended December 31, 2003 and increased other assets by \$1,940 as at December 31, 2003, increased. Associated with this transaction, income tax expense was corrected due income tax expense by \$1,361 for the year ended December 31, 2003 and decreased future income taxes included in capital assets by \$1,361 as at December 31, 2003.

4. **Revenue Recognition.** The correction of revenue related to certain multiple deliverable contracts where the Company recognized revenue on each deliverable as billed and on certain other long-term contracts where the Company recognized revenue on a percentage completion basis. Revenue is now recognized when the products are delivered to the customer. The impact of the revenue recognition correction as at December 31, 2003, was to increase inventory by \$940 (2002 - \$924, 2001 - \$3,340) and increase deferred revenue by \$2,708 (2002 - \$1,940, 2001 - \$5,123). The impact on the statement of operations was an increase (decrease) for the years ended December 31 as follows:

| | 2003 | 2002 | 2001 |
|-------------------------|------------|----------|------------|
| Revenue | (\$ 1,679) | \$ 3,898 | (\$ 1,126) |
| Cost of sales | (924) | 3,071 | (771) |
| Operating income (loss) | (755) | 827 | (355) |
| Income taxes | (210) | (99) | 162 |
| Net income (loss) | (\$ 545) | \$ 926 | (\$ 517) |
| | ===== | ===== | ===== |

This correction resulted in a charge to opening retained earnings (deficit) on January 1, 2001 of \$1,734.

5. **Accounting for Foreign Exchange.** The correction of the accounting for foreign exchange gains and losses related to certain intercompany balances previously reflected in cumulative translation adjustment rather than recognized in earnings. This change resulted in foreign exchange losses of \$2,023 for the year ended December 31, 2003, correspondingly affecting net income and a reduction in the cumulative translation adjustment in the same amount.

6. **Accounting for Investments.** The correction of the accounting for two investments: (i) A majority owned investee, Accumark Promotions Group, Inc. ("Account"), was previously accounted for on a consolidated basis. Upon evaluation pursuant to CICA Handbook Section 1590 "Subsidiaries", it was determined that the Company did not have unilateral control over significant financial operating policies of Accumark, but rather had joint control and accordingly it is now accounted for by the Company using the proportionate consolidation method; and (ii) the remaining investment in Custom Direct Inc. was

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previously accounted for on the cost basis with distributions recorded in revenues. The Company has determined that the investment should be equity accounted for as it had significant influence. Due to the nature of the adjustment in (i), the correction impacted most line items on the balance sheets. The impact of the change of accounting for these investments on the statement of operations is an increase (decrease) for the years ended December 31 are as follows:

| | 2003 | 2002 | 2001 |
|---|------------|------------|------------|
| | ----- | ----- | ----- |
| Revenue | (\$ 6,101) | (\$ 4,472) | (\$ 4,095) |
| Operating costs | (3,235) | (3,755) | (3,404) |
| | ----- | ----- | ----- |
| Operating income (loss) before other charges | (2,866) | (717) | (691) |
| | ----- | ----- | ----- |
| Other charges: | | | |
| Gain (loss) on sale of assets | 73 | - | - |
| Amortization | (30) | (22) | (21) |
| Interest, net | (4) | 4 | (5) |
| Income participation of minority partners | (624) | (699) | (657) |
| | ----- | ----- | ----- |
| | (585) | (717) | (683) |
| | ----- | ----- | ----- |
| Income before income taxes and earnings from affiliates | (2,281) | - | (8) |
| Income taxes | 2 | - | (8) |
| Earnings from affiliates | 1,850 | - | - |
| | ----- | ----- | ----- |
| Net income (loss) | (\$ 433) | \$ - | \$ - |
| | ===== | ===== | ===== |

7. Accounting for Stock-based Compensation. The correction of the accounting for stock-based compensation to recognize, on a cumulative basis, compensation cost to the end of each reporting period at least equal to the value of the vested portion of the stock-based award at that same date. This change increased salary and related costs by \$298 with a corresponding decrease in operating income and net income for the year ended December 31, 2003 and an increase of \$298 in contributed surplus as at December 31, 2003.

The following tables present a summary of the impact of the restatements for the periods presented in the accompanying financial statements:

8. Diluted Earnings per Share. The correction to the computation of the dilutive effect of convertible debentures, in calculating diluted earnings per share.

| | For the Year Ended December 3 | |
|--|-------------------------------|-------------|
| | As Reported | Adjustments |
| | ----- | ----- |

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| | | | |
|---|------------|------------|----|
| Gross Billings | \$ 556,310 | (\$ 7,780) | \$ |
| | ===== | ===== | |
| Revenue | \$ 312,716 | (\$ 7,780) | \$ |
| Operating costs | 276,157 | (2,118) | |
| | ----- | ----- | |
| Operating income before other income (charges) | 36,559 | (5,662) | |
| | ----- | ----- | |
| Other income (charges): | | | |
| Net gain on asset dispositions and other charges | 10,260 | 1,204 | |
| Unrealized foreign exchange gain (loss) | - | (2,023) | |
| Amortization | (12,617) | 2,255 | |
| Amortization of deferred finance charges | - | (2,225) | |
| Interest, net | (11,502) | 4 | |
| Income participation of minority partners | (6,113) | 624 | |
| | ----- | ----- | |
| | (19,972) | (161) | |
| | ----- | ----- | |
| Income (loss) before income taxes, goodwill charges, equity in affiliates and minority interest | 16,587 | (5,823) | |
| Income taxes (recovery) | 6,589 | 1,153 | |
| | ----- | ----- | |
| Income (loss) before goodwill charges, equity in affiliates and minority interest | 9,998 | (6,976) | |
| Equity in affiliates | - | 1,850 | |
| Minority interest (recovery) | (1,044) | - | |
| | ----- | ----- | |
| Net income (loss) for the year | \$ 11,042 | (\$ 5,126) | \$ |
| | ===== | ===== | |
| Earnings Per Common Share: | | | |
| Basic | \$ 0.55 | | \$ |
| Diluted | 0.49 | | |

| | For the Year Ended December 3 | | |
|--|-------------------------------|-------------|-------|
| | As Reported | Adjustments | A |
| | ----- | ----- | ----- |
| Gross Billings | \$ 600,273 | (\$ 574) | \$ |
| | ===== | ===== | |
| Revenue | \$ 387,765 | (\$ 574) | \$ |
| Operating costs | 333,139 | (\$ 684) | |
| | ----- | ----- | |
| Operating income before other income (charges) | 54,626 | 110 | |
| | ----- | ----- | |
| Other income (charges): | | | |
| Net gain on asset dispositions and other charges | 97,288 | - | |
| Unrealized foreign exchange gain (loss) | 4,380 | - | |
| Amortization | (16,171) | 2,052 | |
| Amortization of deferred finance charges | - | (2,030) | |
| Interest, net | (17,810) | (4) | |
| Income participation of minority partners | (3,927) | 699 | |
| | ----- | ----- | |
| | 63,760 | 717 | |
| | ----- | ----- | |

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| | | |
|---|-----------|--------|
| Income (loss) before income taxes, goodwill charges, equity in affiliates and minority interest | 118,386 | 827 |
| Income taxes (recovery) | 22,020 | (99) |
| | ----- | ----- |
| Income (loss) before goodwill charges, equity in affiliates and minority interest | 96,366 | 926 |
| Minority interest (recovery) | 3,032 | - |
| | ----- | ----- |
| Net income (loss) for the year | \$ 93,334 | \$ 926 |
| | ===== | ===== |
| Earnings Per Common Share: | | |
| Basic | \$ 5.46 | |
| Diluted | 3.70 | |

| | For the Year Ended December 31 | | |
|---|--------------------------------|-------------|-------------|
| | As Reported | Adjustments | As Adjusted |
| | ----- | ----- | ----- |
| Gross Billings | \$ 718,189 | (\$ 5,221) | \$ 712,968 |
| | ===== | ===== | ===== |
| Revenue | \$ 509,747 | (\$ 5,221) | \$ 504,526 |
| | ----- | ----- | ----- |
| Operating costs | 429,945 | (4,175) | 425,770 |
| | ----- | ----- | ----- |
| Operating income before other income (charges) | 79,802 | (1,046) | 78,756 |
| | ----- | ----- | ----- |
| Other income (charges): | | | |
| Net gain on asset dispositions and other charges | (59,212) | - | (59,212) |
| Unrealized foreign exchange gain (loss) | (12,034) | - | (12,034) |
| Amortization | (23,717) | 2,819 | (20,898) |
| Amortization of deferred finance charges | - | (2,798) | (2,798) |
| Interest, net | (34,070) | 5 | (34,065) |
| Income participation of minority partners | (3,644) | 657 | (2,987) |
| | ----- | ----- | ----- |
| | (132,677) | 683 | (131,994) |
| | ----- | ----- | ----- |
| Income (loss) before income taxes, goodwill charges, equity in affiliates and minority interest | (52,875) | (363) | (53,238) |
| Income taxes (recovery) | (18,414) | 154 | (18,260) |
| | ----- | ----- | ----- |
| Income (loss) before goodwill charges, equity in affiliates and minority interest | (34,461) | (517) | (34,978) |
| Goodwill charges, net of income tax | 42,999 | - | 42,999 |
| Minority interest (recovery) | (4,178) | - | (4,178) |
| | ----- | ----- | ----- |
| Income (loss) from continuing operations | (73,282) | (517) | (73,799) |
| | ----- | ----- | ----- |
| Loss from discontinued operations | (25,428) | - | (25,428) |
| | ----- | ----- | ----- |
| Net income (loss) for the year | (98,710) | (\$ 517) | (99,227) |
| | ===== | ===== | ===== |
| Earnings Per Common Share: | | | |
| Income (loss) from continuing operations | | | |
| Basic | (\$ 4.43) | | (\$ 4.43) |
| Diluted | (4.43) | | (4.43) |
| Net income (loss) | | | |

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| | | | |
|---------|-----|--------|--|
| Basic | (\$ | 5.93) | |
| Diluted | | (5.93) | |

| | At December 31, 2003 | | |
|---|----------------------|-------------|----|
| | As Reported | Adjustments | A |
| ASSETS | | | |
| Current: | | | |
| Cash and cash equivalents | \$ 71,879 | (279) | \$ |
| Accounts receivable, net | 80,979 | (684) | |
| Inventory | 6,795 | 940 | |
| Prepaid expenses and sundry | 5,068 | (25) | |
| | ----- | ----- | |
| | 164,721 | (48) | |
| Capital and other assets, net | 80,152 | 286 | |
| Goodwill | 103,538 | (1,759) | |
| | ----- | ----- | |
| | \$ 348,411 | (1,521) | \$ |
| | ===== | ===== | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$ 91,289 | (1,683) | \$ |
| Deferred acquisition consideration | 1,113 | - | |
| Deferred revenue | 13,516 | 2,788 | |
| Current portion of long-term indebtedness | 18,646 | - | |
| | ----- | ----- | |
| | 124,564 | 1,105 | |
| Long-term indebtedness | 102,112 | - | |
| | ----- | ----- | |
| | 226,676 | 1,105 | |
| | ----- | ----- | |
| Minority interests | 2,533 | (101) | |
| | ----- | ----- | |
| Shareholders' Equity: | | | |
| Share capital | 117,292 | - | |
| Contributed surplus | 3,272 | 1,338 | |
| Other paid-in capital | 30,851 | - | |
| Cumulative translation adjustment | (4,953) | 2,588 | |
| Retained earnings (deficit) | (27,260) | (6,451) | |
| | ----- | ----- | |
| | 119,202 | (2,525) | |
| | ----- | ----- | |
| | \$ 348,411 | (1,521) | \$ |
| | ===== | ===== | |

| | At December 31, 2002 | | |
|--|----------------------|-------------|---|
| | As Reported | Adjustments | A |

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ASSETS

Current:

| | | | |
|-----------------------------|-----------|-------|----|
| Cash and cash equivalents | \$ 37,788 | (351) | \$ |
| Accounts receivable, net | 67,457 | (668) | |
| Inventory | 7,005 | 924 | |
| Prepaid expenses and sundry | 6,266 | (5) | |

118,516 (100)

Capital and other assets, net 79,967 81

Goodwill 185,637 (108)

\$ 384,120 (127) \$

=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

| | | | |
|---|-----------|-------|----|
| Accounts payable and accrued liabilities | \$ 82,874 | (623) | \$ |
| Deferred acquisition consideration | 23,966 | - | |
| Deferred revenue | 11,104 | 1,940 | |
| Current portion of long-term indebtedness | 4,088 | - | |

122,032 1317

Long-term indebtedness 155,514 -

277,546 1317

Minority interests 9,824 (119)

Shareholders' Equity:

| | | | |
|-----------------------------------|----------|---------|--|
| Share capital | 96,407 | - | |
| Other paid-in capital | 24,179 | - | |
| Cumulative translation adjustment | 7,858 | - | |
| Retained earnings (deficit) | (31,694) | (1,325) | |

96,750 (1,325)

\$ 384,120 (127) \$

=====

At December 31, 2001

As Reported Adjustments A

ASSETS

Current:

| | | | |
|-----------------------------|-----------|---------|----|
| Cash and cash equivalents | \$ 37,231 | (244) | \$ |
| Accounts receivable, net | 89,634 | (1,116) | |
| Inventory | 14,617 | 3,340 | |
| Prepaid expenses and sundry | 7,514 | (29) | |
| Future income taxes | 17,579 | - | |

166,575 1,951

Capital and other assets, net 104,494 (20)

Goodwill 290,524 (108)

\$ 561,593 1,823 \$

=====

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LIABILITIES AND SHAREHOLDERS' EQUITY

Current

| | | | |
|---|------------|---------|--|
| Accounts payable and accrued liabilities | \$ 112,757 | (912) | |
| Deferred acquisition consideration | 15,943 | - | |
| Deferred revenue | 14,924 | 5,123 | |
| Current portion of long-term indebtedness | 7,565 | - | |
| | ----- | ----- | |
| | 151,189 | 4,211 | |
| Long-term indebtedness | 331,158 | - | |
| | ----- | ----- | |
| | 482,347 | 4,211 | |
| | ----- | ----- | |
| Minority interests | 9,576 | (137) | |
| | ----- | ----- | |
| Shareholders' Equity: | | | |
| Share capital | 95,111 | - | |
| Other paid-in capital | 32,687 | - | |
| Cumulative translation adjustment | 3,447 | - | |
| Retained earnings (deficit) | (61,575) | (2,251) | |
| | ----- | ----- | |
| | 69,670 | (2,251) | |
| | ----- | ----- | |
| | \$ 561,593 | 1,823 | |
| | ===== | ===== | |

Reconciliation of Canadian GAAP with US GAAP

The reconciliation of results reported in accordance with generally accepted accounting principles (GAAP) in Canada with the United States GAAP has also been restated to reflect the items above and the following additional items;

- (i) To recognize the fair value adjustment related to an embedded derivative in the Company's exchangeable securities as determined pursuant to SFAS 133, as amended by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities". The correction reduced Other income and net income in 2003 by \$3,974.
- (ii) Correction of the accounting for an investment in a joint ventures, previously accounted for on a proportionately consolidated basis for US GAAP purposes. Pursuant to APB Opinion No. 18. "The Equity Method of Accounting for Investments in Common Stock", these investments are accounted for using the equity method.
- (iii) Correction of the timing and amounts recognized or gain a disposal of an asset.

The following tables present a summary of the impact of the restatements on the reconciliation of results reported in accordance with GAAP in Canada with the United States GAAP for the periods presented in the accompanying financial statements:

| | For the Year Ended December 3 | |
|------------|-------------------------------|-------------|
| | As Reported | Adjustments |
| Operations | | |

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| | | | |
|--|------------|-------------|----|
| Income (loss) from continuing operations before income taxes as reported under Canadian GAAP | \$ 17,631 | (\$ 3,973) | \$ |
| Adjustments | | | |
| Gain on dispositions | 14,785 | (3,664) | |
| Loss on embedded derivative in long-term debt | - | (3,974) | |
| Reduction in amortization | 741 | - | |
| Interest on convertible debt | (1,907) | 215 | |
| | ----- | ----- | |
| Income (loss) from continuing operations before income taxes, US GAAP | 31,250 | (11,396) | |
| | ----- | ----- | |
| Income taxes (recovery) | | | |
| Current | 1,128 | 2 | |
| Deferred | 4,995 | 1,298 | |
| | ----- | ----- | |
| | 6,123 | 1,300 | |
| | ----- | ----- | |
| Net income (loss), US GAAP | 25,127 | (12,696) | |
| | | | |
| Other comprehensive income, net of tax | | | |
| Cumulative translation adjustment | (13,627) | 2,412 | |
| | ----- | ----- | |
| Comprehensive income (loss), US GAAP | \$ 11,500 | (\$ 10,284) | \$ |
| | ===== | ===== | |
| Net income (loss) per Class A and Class B share, US GAAP | | | |
| Basic | \$ 1.41 | | \$ |
| Diluted | \$ 1.15 | | \$ |
| Weighted average number of shares | | | |
| Basic | 17,791,064 | | |
| Diluted | 23,257,596 | | |

At December 31, 2003

| | As Reported | Adjustments | A |
|---|-------------|-------------|-------|
| | ----- | ----- | ----- |
| In Accordance with Canadian GAAP: | | | |
| Current assets | \$ 164,721 | (\$ 48) | \$ |
| Capital and other | 80,152 | 286 | |
| Goodwill | 103,538 | (1,759) | |
| Current liabilities | 124,564 | 1,105 | |
| Long term indebtedness | 102,112 | - | |
| Share capital | 117,292 | - | |
| Contributed surplus | 3,272 | 1,338 | |
| Other paid in capital | 30,851 | - | |
| Cumulative translation adjustment | (4,953) | 2,588 | |
| Retained earnings (accumulated deficit) | (27,260) | (6,451) | |

At December 31, 2003

| | As Reported | Adjustments | A |
|--|-------------|-------------|-------|
| | ----- | ----- | ----- |

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In Accordance with US GAAP:

| | | | |
|---|------------|------------|----|
| Current assets | \$ 145,982 | (\$ 1,438) | \$ |
| Capital and other | 96,719 | (2,923) | |
| Goodwill | 87,479 | (4,280) | |
| Current liabilities | 105,040 | 878 | |
| Long term indebtedness | 134,256 | 24 | |
| Share capital | 115,996 | - | |
| Contributed surplus | 3,272 | 1,338 | |
| Accumulated other comprehensive income | (5,769) | 3,241 | |
| Retained earnings (accumulated deficit) | (25,148) | (14,021) | |

| | For the Year Ended December 3 | | |
|---|-------------------------------|-------------|-------|
| | As Reported | Adjustments | A |
| | ----- | ----- | ----- |
| Operations | | | |
| Income (loss) from continuing operations before income taxes a reported under Canadian GAAP | \$ 115,354 | \$ 827 | \$ |
| Adjustments | | | |
| Gain on dispositions | 3,209 | - | |
| Deferred charges | (134) | - | |
| Unrealized financial derivative gain | 4,437 | - | |
| Reduction in amortization | 1,322 | - | |
| Interest on convertible debt | (1,582) | - | |
| | ----- | ----- | |
| Income (loss) from continuing operations before income taxes, US GAAP | 122,606 | 827 | |
| | ----- | ----- | |
| Income taxes (recovery) | | | |
| Current | 1,051 | - | |
| Deferred | 25,495 | (99) | |
| | ----- | ----- | |
| | 26,546 | (99) | |
| | ----- | ----- | |
| Net income (loss) from continuing operations | 96,060 | 926 | |
| Cumulative effect of change in accounting principle | (62,477) | - | |
| | ----- | ----- | |
| Net income (loss), US GAAP | 33,583 | 926 | |
| Other comprehensive income, net of tax | | | |
| Cumulative translation adjustment | 5,240 | - | |
| | ----- | ----- | |
| Comprehensive income (loss), US GAAP | \$ 38,823 | \$ 926 | \$ |
| | ===== | ===== | ===== |
| Net income (loss) per Class A and Class B share, under US GAAP, from continuing operations: | | | |
| Basic | \$ 5.68 | | \$ |
| Diluted | \$ 3.84 | | \$ |
| Earnings (loss) per Class A and Class B share, as reported: | | | |
| Basic | \$ 1.99 | | \$ |

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| | | | |
|-----------------------------------|----|------------|----|
| Diluted | \$ | 1.38 | \$ |
| Weighted average number of shares | | | |
| Basic | | 16,915,341 | |
| Diluted | | 25,357,018 | |

At December 31, 2002

| | As Reported | Adjustments | A |
|---|-------------|-------------|----|
| In Accordance with Canadian GAAP: | | | |
| Current assets | \$ 118,516 | (\$ 100) | \$ |
| Capital and other | 79,967 | 81 | |
| Goodwill | 185,637 | (108) | |
| Current liabilities | 122,032 | 1,317 | |
| Long term indebtedness | 155,514 | - | |
| Share capital | 96,407 | - | |
| Other paid in capital | 24,179 | - | |
| Cumulative translation adjustment | 7,858 | - | |
| Retained earnings (accumulated deficit) | (31,694) | (1,325) | |

At December 31, 2002

| | As Reported | Adjustments | A |
|---|-------------|-------------|----|
| In Accordance with US GAAP: | | | |
| Current assets | \$ 105,613 | (\$ 1,601) | \$ |
| Capital and other | 103,940 | (10,658) | |
| Goodwill | 143,976 | 8,407 | |
| Current liabilities | 108,911 | (767) | |
| Long term indebtedness | 179,290 | (1,641) | |
| Share capital | 95,111 | - | |
| Share purchase loans | (3,550) | - | |
| Accumulated other comprehensive income | 8,687 | - | |
| Retained earnings (accumulated deficit) | (44,744) | (1,325) | |

For the Year Ended December 3

| | As Reported | Adjustments | A |
|--|-------------|-------------|---|
| Operations | (\$ 94,002) | (\$ 363) | (|
| Income (loss) from continuing operations before income taxes a reported under Canadian GAAP | | | |

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| | | | |
|---|-------------|----------|--|
| Adjustments | | | |
| Deferred charges | (1,635) | - | |
| Unrealized financial derivative gain | 5,023 | - | |
| Reduction in amortization | 3,640 | - | |
| Interest on convertible debt | (1,682) | - | |
| | ----- | ----- | |
| Income (loss) from continuing operations before income taxes, US GAAP | (88,656) | (363) | |
| | ----- | ----- | |
| Income taxes (recovery) | | | |
| Current | 487 | (8) | |
| Deferred | (19,068) | 162 | |
| | ----- | ----- | |
| | (18,581) | 154 | |
| | ----- | ----- | |
| Net income (loss) from continuing operations, US GAAP | (70,075) | (517) | |
| Cumulative effect of change in accounting principle | (5,650) | - | |
| Loss from discontinued operations | (24,078) | - | |
| | ----- | ----- | |
| Net income (loss), US GAAP | (99,803) | (517) | |
| Other comprehensive income, net of tax | | | |
| Cumulative translation adjustment | 7,526 | - | |
| | ----- | ----- | |
| Comprehensive income (loss), US GAAP | (\$ 92,277) | (\$ 517) | |
| | ===== | ===== | |
| Net income (loss) per Class A and Class B share, under US GAAP, from continuing operations: | | | |
| Basic | (\$ 4.15) | | |
| Diluted | (\$ 4.15) | | |
| Net income (loss) per Class A and Class B share, as reported: | | | |
| Basic | (\$ 5.91) | | |
| Diluted | (\$ 5.91) | | |
| Weighted average number of shares | | | |
| Basic | 16,885,877 | | |
| Diluted | 16,885,877 | | |

At December 31, 2001

| | As Reported | Adjustments | A |
|---|-------------|-------------|-------|
| | ----- | ----- | ----- |
| In Accordance with Canadian GAAP: | | | |
| Current assets | \$ 166,575 | \$ 1,951 | \$ |
| Capital and other | 104,494 | (20) | |
| Goodwill | 290,524 | (108) | |
| Current liabilities | 151,189 | 4,211 | |
| Long term indebtedness | 331,158 | - | |
| Share capital | 95,111 | - | |
| Other paid in capital | 32,687 | - | |
| Cumulative translation adjustment | 3,447 | - | |
| Retained earnings (accumulated deficit) | (61,575) | (2,251) | |

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| | At December 31, 2001 | | |
|---|----------------------|-------------|----|
| | As Reported | Adjustments | A |
| In Accordance with US GAAP: | | | |
| Current assets | \$ 166,575 | \$ 255 | \$ |
| Capital and other | 100,126 | 3,188 | |
| Goodwill | 277,527 | (2,159) | |
| Current liabilities | 151,189 | 3,672 | |
| Long term indebtedness | 366,944 | - | |
| Share capital | 95,111 | - | |
| Share purchase loans | (4,711) | - | |
| Accumulated other comprehensive income | 4,446 | - | |
| Retained earnings (accumulated deficit) | (78,327) | (2,251) | |

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the Company adopted the recommendation of the CICA with respect to the accounting for foreign exchange gains or losses relating to translation of non-hedged long-term monetary assets and liabilities.

The effects of the change, which has been applied retroactively, are a decrease to capital assets and retained earnings as at January 1, 2002 of \$15,470 (2001 - \$6,732). Net income for the year ended December 31, 2001 was decreased from the amount previously reported by \$8,732 primarily related to the unrealized foreign exchange loss of \$12,034.

GOODWILL

Effective January 1, 2002, the Company adopted the recommendations of the CICA with respect to goodwill and other intangibles. These standards require that goodwill and other intangible assets determined to have indefinite lives are no longer amortized but tested for impairment on adoption of the standard and at least annually thereafter.

Transitional impairment tests for goodwill were completed by June 30, 2002 and, as a result, a transitional impairment loss of \$62,477 (net of income tax recovery of \$10,045) was charged to the 2002 opening retained earnings.

3. ACQUISITIONS

The following are the acquisitions during the period. These acquisitions were accounted for by the purchase method and consolidated from the respective effective date of acquisition.

2001 Acquisitions:

Effective January 8, 2001, the Company acquired 49% of Crispin Porter + Bogusky LLC.

Effective January 31, 2001, the Company acquired 100% of the Canadian card services business of MIST Inc.

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Effective February 15, 2001, the Company acquired an additional 16% of CyberSight Acquisition Co., Inc.

Effective March 1, 2001, the Company acquired 100% of The Marketing Department LLC.

Effective June 15, 2001, the Company acquired 100% of McCool Communications.

Effective July 25, 2001, the Company acquired 79.17% of Grange Advertising Limited.

2002 Acquisitions:

None.

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF U.S. DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002, 2001

3. ACQUISITIONS (CONTINUED)

2003 Acquisitions:

Effective January 1, 2003, the Company acquired the remaining 5.96% of Colle & McVoy, Inc. that it did not already own.

Effective March 31, 2003, the Company acquired an additional 1.52% of Allard Johnson Communications Inc. to own 54.3%.

Effective July 31, 2003, the Company acquired the remaining 26% of Maxxcom Inc. ("Maxxcom") that it did not already own through a plan of arrangement (the "privatization of Maxxcom").

Effective August 15, 2003, the Company acquired the remaining 38.7% of Interfocus Network Ltd. that it did not already own.

Effective September 30, 2003, the Company acquired the remaining 15% of Metaca Corporation that it did not already own.

Effective October 1, 2003, the Company acquired an additional 6.17% of Source Marketing, LLC to own 87.67%.

The assets acquired and the consideration given are as follows:

| | DECEMBER 31, | | |
|------------------------------------|---------------|-------|----------|
| | Restated 2003 | 2002 | 2001 |
| Net assets acquired, at fair value | | | |
| Assets, net of liabilities | \$ 219 | \$ 36 | \$ 4,425 |
| Reduction in minority interest | 6,844 | - | - |

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| | | | |
|----------|-----------|-----------|----------|
| Goodwill | 23,523 | 20,774 | 50,927 |
| | ----- | ----- | ----- |
| | \$ 30,586 | \$ 20,810 | \$55,352 |
| | ===== | ===== | ===== |

Consideration

| | | | |
|--|-----------|-----------|-----------|
| Cash and promissory notes | \$ 6,215 | \$ - | \$24,552 |
| Class A shares issued | 24,199 | - | 7,353 |
| Fair value of stock options and Warrants issued | 2,530 | - | - |
| Additional consideration - current year acquisitions | - | - | 626 |
| Additional consideration - prior year acquisitions | 698 | 20,418 | 14,250 |
| Recovery of consideration - prior year acquisitions | (4,176) | - | - |
| Other acquisition costs | 1,120 | 392 | 8,571 |
| | ----- | ----- | ----- |
| | \$ 30,586 | \$ 20,810 | \$ 55,352 |
| | ===== | ===== | ===== |

In addition to the consideration paid by the Company in respect of its acquisitions, additional consideration may be payable based on the achievement of certain threshold levels of earnings. Based on the current year's earnings, \$698 (2002 - \$12,553, 2001 - \$28,240) of additional consideration was accrued related to current and prior year acquisitions and is reflected in deferred acquisition consideration (see note 13). No additional consideration will be incurred on current and prior year acquisitions.

=====

MDC Partners Inc.
Notes to Consolidated Financial Statements
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except per share amounts)

December 31, 2003, 2002, 2001

4. Interest in Jointly Controlled Entity

The Company accounts for its 49% interest in Crispin Porter + Bogusky LLC, a jointly controlled entity, using the proportionate consolidation method. The following is the Company's proportionate share of the major components of the financial statements of the jointly controlled entity as at and for the years ended December 31, 2003, 2002 and 2001:

| Balance Sheet | 2003 | 2002 | 2001 |
|-------------------------|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| Current assets | \$ 18,739 | \$ 12,903 | \$ 5,106 |
| Long-term assets | 2,641 | 325 | 371 |
| Current liabilities | (16,965) | (12,935) | (5,001) |
| Long-term liabilities | (867) | - | - |
| | ----- | ----- | ----- |
| Statement of Operations | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- |
| Gross billings | \$ 58,143 | \$ 32,051 | \$ 13,893 |
| | ----- | ----- | ----- |
| Revenues | \$ 13,491 | \$ 9,506 | \$ 5,517 |

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| | | | |
|----------------------------|----------|----------|--------|
| Expenses | 9,066 | 6,680 | 4,595 |
| | ----- | ----- | ----- |
| Income before income taxes | 4,425 | 2,826 | 922 |
| Income taxes | 1,666 | 1,064 | 347 |
| | ----- | ----- | ----- |
| Net income | \$ 2,759 | \$ 1,762 | \$ 575 |
| | ----- | ----- | ----- |

| | | | |
|-------------------------------|----------|----------|----------|
| Statement of Cash Flows | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- |
| Cash provided from (used in): | | | |
| Operating activities | \$ 2,385 | \$ 7,486 | \$ (208) |
| Investing activities | (1,600) | (224) | (97) |
| Financing activities | (1,170) | (3,008) | (359) |

5. Accounts Receivable

| | | | | |
|---------------------------|---------|--------------|------------|------------|
| | | December 31, | | |
| | | ----- | ----- | ----- |
| | | 2003 | 2002 | 2001 |
| | | ----- | ----- | ----- |
| | | Restated | Restated | Restated |
| | | See Note 1 | See Note 1 | See Note 1 |
| Receivables | - Trade | \$ 66,304 | \$ 56,670 | \$ 74,126 |
| | - Other | 3,655 | 2,158 | 5,980 |
| Unbilled work in progress | | 10,336 | 7,961 | 8,412 |
| | | ----- | ----- | ----- |
| | | \$ 80,295 | \$ 66,789 | \$ 88,518 |
| | | ----- | ----- | ----- |

MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars,
except per share amounts)

December 31, 2003, 2002, 2001

6. Capital and Other Assets

| | | | | | |
|--|-------|-----------------------------|-------|-----------------------------|-------|
| | 2003 | | 2002 | | |
| | ----- | ----- | ----- | ----- | ----- |
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization | Cost |
| | ----- | ----- | ----- | ----- | ----- |
| | | Restated | | Restated | |
| | | See Note 1 | | See Note 1 | |

(a) Capital Assets

| | | | | | |
|-----------|----------|-------|--------|-------|------|
| Land | \$ 1,026 | \$ - | \$ 843 | \$ - | \$ 8 |
| Buildings | 5,570 | 1,513 | 4,556 | 1,100 | 4,8 |

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| | | | | | |
|--|---------|-----------|---------|-----------|-------|
| Computer, furniture and fixtures | 46,062 | 32,288 | 45,800 | 28,542 | 64,8 |
| Machinery and equipment | 32,233 | 12,426 | 33,012 | 11,590 | 48,1 |
| Leasehold improvements | 12,845 | 6,895 | 10,907 | 5,536 | 13,8 |
| | ----- | ----- | ----- | ----- | ----- |
| | 97,736 | 53,122 | 95,118 | 46,768 | 132,5 |
| | ----- | ----- | ----- | ----- | ----- |
| (b) Other Assets | | | | | |
| Investments, net of provisions | 16,114 | - | 103 | - | 3 |
| Long-term notes receivable, net of provisions of \$8,326 (2002 - \$17,435, 2001 - \$12,712) | 1,749 | - | 5,139 | - | 9,5 |
| Deferred charges | 2,708 | 1,698 | 2,100 | 1,442 | 12,5 |
| Deferred finance costs | 9,811 | 4,423 | 10,467 | 4,318 | 13,4 |
| Future income taxes | 11,563 | - | 19,649 | - | 11,4 |
| | ----- | ----- | ----- | ----- | ----- |
| | 41,945 | 6,121 | 37,458 | 5,760 | 47,3 |
| | ----- | ----- | ----- | ----- | ----- |
| | 139,681 | 59,243 | 132,576 | 52,528 | 179,8 |
| | ----- | ----- | ----- | ----- | ----- |
| Cost less accumulated amortization | | \$ 80,438 | | \$ 80,048 | |
| | ----- | ----- | ----- | ----- | ----- |

Investments include \$15,946 related to a 20% equity investment in of Custom Direct, Inc. which were exchanged into units of Custom Direct Income Fund ("Fund"). On February 13, 2004.the investment was exchanged into units of the Fund and were then applied in full settlement of the Company's adjustable rate exchangeable securities (see Note 8).

Included in capital assets are assets under capital leases with a cost of \$11,682 (2002 - \$10,835, 2001 - \$10,241) and accumulated amortization of \$5,089 (2002 - \$4,120, 2001 - \$3,320). As at December 31, 2003, long-term notes receivable ("Notes") include \$10,075 (2002 - \$13,972, 2001 - \$14,099), subject to provisions of \$8,326 (2002 - \$9,207, 2001 - \$9,292), owing from current and former employees, officers and directors of the Company and its subsidiaries. The Notes are non-interest bearing with no specific terms of repayment. During the year, a recovery of \$1,710 (2002 - \$Nil, 2001 - a provision of \$2,395) relating to employee notes receivable has been recorded.

=====

MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars,
except per share amounts)

December 31, 2003, 2002, 2001

7. Goodwill

Effective January 1, 2002, the Company adopted the new standards of the CICA Handbook Section 3062 for accounting for goodwill and other intangible assets. These standards require that goodwill no longer be amortized, but tested for impairment, at least annually by comparison to its fair value. Pursuant to these standards, management of the Company completed the transitional impairment test as at June 30, 2002. By applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units, the

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Company assessed its goodwill and recorded a transitional impairment loss of \$62,477 net of income taxes (\$72,522 before income taxes) directly as a reduction to opening retained earnings (deficit) at January 1, 2002.

The original cost and accumulated amortization of goodwill as at December 31, 2001 was as follows (Restated - See Note 1):

| | | |
|--------------------------|----|---------|
| Cost | \$ | 323,054 |
| Accumulated amortization | | 32,638 |
| | | ----- |
| | \$ | 290,416 |
| | | ===== |

The changes in the carrying amount of goodwill for the year ended December 31 are as follows:

| | ----- 2003 ----- Restated See Note 1 | ----- 2002 ----- Restated See Note 1 |
|--------------------------------|--|--|
| Balance, January 1 | \$ 185,529 | \$ 290,416 |
| Transitional impairment loss | - | (72,522) |
| Acquired during the year | 23,523 | 20,774 |
| Reduction for dispositions | (88,741) | (55,647) |
| Goodwill charges (see note 13) | (10,012) | - |
| Foreign currency translation | (8,520) | 2,508 |
| | ----- | ----- |
| Balance, December 31 | \$ 101,779 | \$ 185,529 |
| | ===== | ===== |

Net income (loss), adjusted to exclude goodwill amortization expense including the related income tax effects, is as follows:

| | ----- 2003 ----- Restated See Note 1 | ----- 2002 ----- Restated See Note 1 | ----- Re See |
|--|--|--|--------------------|
| Reported net income (loss) | \$ 5,916 | \$ 94,260 | \$ |
| Add back: goodwill amortization, net of tax of \$Nil (2002 - \$Nil, 2001 - \$1,811) | - | - | |
| | ----- | ----- | |
| Adjusted net income (loss) | \$ 5,916 | \$ 94,260 | \$ |
| | ===== | ===== | ===== |
| Earnings (loss) per share: | | | |
| Reported net income (loss) | | | |
| Basic | \$ 0.27 | \$ 5.51 | \$ |
| Goodwill amortization | - | - | |
| | ----- | ----- | |
| Adjusted net income (loss) | \$ 0.27 | \$ 5.51 | \$ |
| | ===== | ===== | ===== |
| Diluted | \$ 0.26 | \$ 3.73 | \$ |
| Goodwill amortization | - | - | |

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| | | | |
|----------------------------|---------|---------|-------|
| Adjusted net income (loss) | \$ 0.26 | \$ 3.73 | \$ |
| | ===== | ===== | ===== |

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF U.S. DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002, 2001

8. LONG-TERM INDEBTEDNESS

| | DECEMBER 31, | | |
|--|--------------|------------|------------|
| | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- |
| Adjustable rate exchangeable securities C\$34,155 (2002 and 2001 - Nil), due December 2008 | | | |
| Adjustable rate exchangeable securities, C\$34,155 (2002 - Nil), due December 2028 | \$ 26,344 | \$ - | \$ - |
| 10.5% unsecured senior subordinated notes Davis & Henderson, Limited Partnership term facility | - | 86,433 | 200,000 |
| 7% convertible debentures, face value C\$49,000 (2002 and 2001 - C\$50,000), due January 8, 2007 | 6,943 | 7,515 | - |
| 6% convertible subordinated notes | - | - | 3,139 |
| 7.84% mortgage payable, C\$5,261 (2002 - C\$5,390, 2001 - C\$5,500), due January 2012 | 4,058 | 3,417 | 3,454 |
| Notes payable and other bank loans | 5,632 | 4,208 | 7,444 |
| MDC credit facility | - | - | 7,000 |
| Maxxcom credit facility | 30,718 | 24,000 | 35,242 |
| Maxxcom subordinated debenture, C\$51,664 (2002 - C\$45,465, 2001 - C\$40,000), due September 2005 | 39,849 | 28,819 | 25,113 |
| | ----- | ----- | ----- |
| | 113,544 | 154,392 | 331,618 |
| Obligations under capital leases, interest at 6.2% to 8.4% | 7,214 | 5,210 | 7,105 |
| | ----- | ----- | ----- |
| | 120,758 | 159,602 | 338,723 |
| Less: Current portion | 18,646 | 4,088 | 7,565 |
| | ----- | ----- | ----- |
| | \$ 102,112 | \$ 155,514 | \$ 331,158 |
| | ===== | ===== | ===== |

On December 8, 2003, the Company issued \$26,344 (C\$34,155) of adjustable rate exchangeable securities due December 31, 2028 for cash proceeds of \$24,450 (C\$31,700). Based on the performance of Custom Direct Income Fund (the "Fund") for the period ended December 31, 2003, the Company was entitled to exchange its shares of Custom Direct, Inc. for units of the Fund. The units of the Fund were

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then applied by the Company in full settlement of the adjustable rate exchangeable securities. The transaction was completed on February 13, 2004.

The Maxxcom stand-alone credit facility provides for an aggregate maximum borrowing of up to \$39,414 (C\$51,100) bearing interest at rates which depend on certain of Maxxcom's financial ratios and which vary in accordance with borrowing rates in Canada and the United States. The maximum aggregate borrowing reduces by \$5,399 (C\$7,000) per quarter until maturity on March 31, 2005. The facility is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and an assignment of intercompany debt.

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8. LONG-TERM INDEBTEDNESS (CONTINUED)

On July 11, 2001, Maxxcom issued a C\$40,000 subordinated debenture, which bears interest at bankers' acceptance plus 8%. It is secured by a general security agreement, a pledge of shares of Maxxcom's subsidiaries and intercompany debt and is ranked second to the Maxxcom stand-alone credit facility. In connection with the debenture, Maxxcom issued five-year warrants to the debenture holder which provided for the purchase of up to 1,349,850 Maxxcom shares at a price of C\$9.00 per share. No value was assigned to the warrants.

In April 2002, Maxxcom reached agreements with its senior credit and subordinated debenture lenders to amend certain of its credit facilities covenants. In connection with these amendments, Maxxcom agreed to amend the exercise price of the warrants to acquire 1,349,850 Maxxcom common shares which were granted to the holders of the C\$40,000 subordinated debenture. The exercise price was reduced from C\$9.00 per share to C\$2.50 per share. As a result of this amendment, the Company recorded a deferred finance charge of \$493, representing the estimated value of the warrants at that time.

Upon the privatization of Maxxcom, the Maxxcom warrants were exchanged into 257,146 MDC warrants with an exercise price of C\$13.12. The fair value of the MDC warrants was included as consideration in the privatization of Maxxcom.

The notes payable and other bank loans bear interest at rates ranging from prime less 0.5% to a fixed rate of 8.95% and are due between 2004 and 2010. The other bank loans are secured by a general security agreement with a specific subsidiary.

The mortgage and capital leases are secured by specific equipment, land and building.

In accordance with the Company's accounting policy on financial instruments, the net proceeds of C\$47,350 of the 7% convertible debentures with the face value of C\$50,000 were originally allocated C\$14,350 to long-term indebtedness and C\$33,000 to other paid-in capital within shareholders' equity. Additional amounts were capitalized annually to the equity portion of the notes in order that the equity portion of the notes equaled the face value at the estimated settlement date of January 2002. As the notes were not settled within the estimated period, the debt and equity components of the 7% convertible debentures were re-assessed in January 2002 with an allocation to long-term indebtedness from other paid-in capital, in the amount of \$9,010, representing

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the present value of future interest payments. Additional amounts are capitalized annually to the equity portion of the notes in order that the equity portion of the notes will equal the face value at maturity. The 7% convertible debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per one thousand Canadian dollars of debenture. The 7% convertible debentures are redeemable by the Company at par. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradable Class A shares. The debentures are unsecured and rank subordinate to all other indebtedness.

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts)

December 31, 2003, 2002, 2001

8. Long-term Indebtedness (Continued)

The approximate principal portion of long-term indebtedness repayable in each of the five years subsequent to December 31, 2003 is as follows:

| | | |
|------------|----|---------|
| 2004 | \$ | 18,646 |
| 2005 | | 65,311 |
| 2006 | | 4,162 |
| 2007 | | 1,093 |
| 2008 | | 4,056 |
| Thereafter | | 27,490 |
| | | ----- |
| Total | \$ | 120,758 |
| | | ===== |

Total interest on long-term indebtedness was \$12,412 (2002 - \$18,260, 2001 - \$33,886). The Company's estimate of the fair value of its long-term indebtedness is as follows:

| | December 31, | | |
|----------------------------|--------------|------------|------------|
| | 2003 | 2002 | 2001 |
| Maturing within five years | \$ 93,500 | \$ 148,000 | \$ 298,000 |
| Maturing after five years | 32,500 | 4,000 | 4,000 |
| | \$ 126,000 | \$ 152,000 | \$ 302,000 |
| | ===== | ===== | ===== |

9. Share Capital

The authorized share capital of the Company is as follows:

An unlimited number of Class A shares (subordinate voting shares) carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

An unlimited number of Class B shares carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

An unlimited number of non-voting preference shares issuable in series.

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Changes to the Company's issued and outstanding share capital are as follows:

9. Share Capital (Continued)

| MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts) | | |
|--|-------------|------------|
| December 31, 2003, 2002, 2001 | | |
| Class A | Shares | Amount |
| Balance December 31, 2000 | 16,261,309 | \$ 93,618 |
| Share options exercised | 112,025 | 732 |
| Shares acquired and cancelled | (841,800) | (6,727) |
| Shares issued in exchange for Cybersight Acquisition Co., Inc. shares | 933,337 | 7,353 |
| Balance December 31, 2001 | 16,464,871 | 94,976 |
| Allocation from other paid-in capital upon settlement of 6% convertible subordinated notes | - | 1,296 |
| Balance December 31, 2002 | 16,464,871 | 96,272 |
| Share options exercised | 458,987 | 3,031 |
| Shares acquired and cancelled | (1,274,816) | (8,131) |
| Shares issued on privatization of Maxxcom | 2,473,183 | 23,327 |
| Shares issued as acquisition consideration | 74,183 | 872 |
| Shares issued as deferred acquisition consideration | 173,043 | 1,786 |
| Balance December 31, 2003 | 18,369,451 | \$ 117,157 |
| Class B | | |
| Balance December 31, 2001, 2002 and 2003 | 450,470 | \$ 135 |
| Total Class A and Class B Share Capital | | |
| 2003 | 18,819,921 | \$ 117,292 |
| 2002 | 16,915,341 | \$ 96,407 |
| 2001 | 16,915,341 | \$ 95,111 |

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MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts)

December 31, 2003, 2002, 2001

9. Share Capital (Continued)

The Company has an employee share option incentive plan, which currently may grant up to 2,331,112 options to employees, officers, directors and consultants of the Company. All options granted are for a term of five years from the date of grant and vest 20% on the date of grant and a further 20% on each anniversary date. In addition, the Company granted 534,960, on the privatization of Maxxcom, with a term of no more than ten years from initial date of grant by Maxxcom and vest 20% in each of the first two years with the balance vesting on the third anniversary of the initial grant.

The Company has reserved a total of 5,263,365 Class A shares in order to meet its obligations under various conversion rights, warrants and employee share options. At December 31, 2003 there were 275,698 shares available for future option grants.

Information related to share option transactions over the past three years is summarized as follows:

| | Options Outstanding | | Options Exercisable | |
|-------------------------------------|--|---|-----------------------|--------------------|
| | Weighted Average Number Outstanding | Weighted Average Price per Share | Number Outstanding | Price per Share |
| Balance, December 31, 2000 | 2,256,279 | 8.01 | 1,347,556 | 7.64 |
| Granted | 130,000 | 5.93 | | |
| Exercised | (112,025) | 6.44 | | |
| Expired and cancelled | (416,409) | 7.62 | | |
| | | | | |
| Balance, December 31, 2001 | 1,857,845 | 7.46 | 1,314,736 | 7.33 |
| Granted | 812,000 | 3.47 | | |
| Expired and cancelled | (420,217) | 5.76 | | |
| | | | | |
| Balance, December 31, 2002 | 2,249,628 | 6.45 | 1,353,344 | 7.63 |
| Granted | 614,000 | 5.94 | | |
| Granted on privatization of Maxxcom | 534,960 | 6.24 | | |
| Exercised | (458,987) | 6.35 | | |
| Expired and cancelled | (872,873) | 9.46 | | |
| | | | | |
| Balance, December 31, 2003 | 2,066,728 | \$ 6.60 | 870,979 | \$ 7.82 |
| | | | | |

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts)

December 31, 2003, 2002, 2001

9. Share Capital (Continued)

Share options outstanding at December 31, 2003 are summarized as follows:

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| Range of Exercise Prices | Number Outstanding | Options Outstanding | | Options Exercisable | |
|-----------------------------|-----------------------|--|---|-----------------------|---|
| | | Weighted Average Contractual Life | Weighted Average Price per Share | Number Exercisable | Weighted Average Price per Share |
| \$2.97 - \$4.50 | 784,535 | 3.9 | \$ 4.13 | 315,907 | \$ 4.11 |
| \$4.51 - \$6.00 | 525,265 | 4.4 | 5.60 | 111,034 | 5.61 |
| \$6.01 - \$9.00 | 348,253 | 5.3 | 7.33 | 159,484 | 7.95 |
| \$9.01 - \$14.00 | 395,118 | 2.4 | 10.93 | 271,283 | 11.23 |
| \$23.00 - \$44.00 | 13,557 | 3.2 | 42.81 | 13,271 | 43.24 |

In 2003, the Company recorded \$888 compensation expense related to options issued to employees including options assumed on the privatization of Maxxcom. Prior to 2003, the Company recorded no compensation expense when options were issued to employees but provided pro forma information for options granted after January 1, 2002. The Company estimates the fair value of each share option on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6%; expected volatility of 40%; expected option life of five years; and no dividend payments. Had compensation expense been recorded for employee stock option grants in 2002, the resulting pro forma net earnings and earnings per share would be as follows:

For the year ended December 31, 2002

Restated - See Note 1

| | |
|------------------------------|-----------|
| Pro forma net income | \$ 94,189 |
| | ===== |
| Pro forma earnings per share | |
| Basic | \$ 5.51 |
| | ===== |
| Diluted | \$ 3.69 |
| | ===== |

During 2003, the Compensation Committee of the Board of Directors approved a stock appreciation rights compensation program for senior officers and directors of the Company. Stock appreciation rights have a term of four years and vest one-third on each anniversary date. During the year ended December 31, 2003, 1,650,479 stock appreciation rights were granted with rights prices ranging from \$3.85 to \$7.71 with an average price of \$5.76. The Company has recorded compensation expense of \$4,102 with respect to stock appreciation rights.

The Company's compensation expense related to options assumed on the privatization of Maxxcom, stock appreciation rights and from the issuance of stock warrants and options for the year ended December 31, 2003 was \$6,182.

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MDC Partners Inc.

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Notes to Consolidated Financial Statements
(in thousands of U.S. dollars,
except per share amounts)

December 31, 2003, 2002, 2001

10. Contributed Surplus

| | 2003 | 2002 |
|--|------------------------|------|
| | Restated See Note 1 | |
| Fair value of stock options granted to employees | \$ 888 | \$ - |
| Fair value of stock options issued on privatization of Maxxcom | 1,703 | - |
| Fair value of 257,146 stock warrants granted on privatization of Maxxcom, fully vested with an exercise price of C\$13.12, expiring July 11, 2006 | 827 | - |
| Fair value of 250,000 stock warrants granted to service providers, fully vested with an exercise price of C\$15.47, expiring November 19, 2008 | 1,192 | - |
| | \$ 4,610 | \$ - |

11. Other Paid-in Capital

| | 2003 | 2002 |
|--|-----------|-----------|
| Balance beginning of year | \$ 24,179 | \$ 32,687 |
| Allocation upon re-assessment of 7% convertible debentures (See Note 8) | - | (9,010) |
| Allocation to share capital upon settlement of 6% convertible subordinated notes | - | (1,296) |
| Allocation from retained earnings | 1,692 | 1,592 |

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| | | |
|---|------------------|------------------|
| Reduction for repurchase of C\$1,000 of 7% convertible debentures | (597) | - |
| Foreign exchange | 5,577 | 206 |
| | <u>\$ 30,851</u> | <u>\$ 24,179</u> |

During 2002, share capital increased \$1,296 representing the transfer from other paid-in capital of the expired option value associated with the 6% convertible subordinated notes which were repaid.

12. Cumulative Translation Adjustment

This adjustment represents the net unrealized foreign currency translation gain (loss) on the Company's net investment in self-sustaining foreign operations in the United States, United Kingdom and Australia.

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts) December 31, 2003, 2002, 2001

13. Net Gain on Asset Dispositions and Other Charges

| | For the years ended December 31, | | |
|-----------------------------------|----------------------------------|------------------|--------------------|
| | 2003 | 2002 | 2001 |
| | Restated See Note 1) | | |
| Cash charges | \$ - | \$ (5,097) | \$ (13,675) |
| Stock based compensation expense | (5,474) | - | - |
| Non-cash charges - capital assets | (8,126) | (3,391) | (107,839) |
| Goodwill charges | (10,012) | - | - |
| Net gain on asset dispositions | 35,076 | 105,776 | 62,302 |
| | <u>\$ 11,464</u> | <u>\$ 97,288</u> | <u>\$ (59,212)</u> |

In May 2003, the Company sold an 80% interest in Custom Direct Inc. ("Custom") to the Custom Direct Income Fund ("the Fund") for cash and units of the Fund. The Fund units were subsequently sold in July 2003. Total gross proceeds for the disposal of 80% of Custom were approximately \$150,000. The net gain on asset dispositions includes charges for incentive payments to management including management of divested subsidiaries in the amount of \$10,737 (2002 - \$1,239, 2001 - \$7,561). In accordance with its accounting policy of testing goodwill and other intangibles for impairment on an annual basis, the Company undertook an extensive review of all businesses comparing the book carrying value to the estimated fair market value of each operation. As a result, the Company recorded non-cash charges against specific assets of \$11,211 and goodwill charges of \$10,012.

During 2002, the Company disposed of its remaining interest in Davis + Henderson, A.E. McKenzie Co. Inc., The House of Questa Limited, Spectron Security Print Pty Ltd., Ashton-Potter Packaging and Cybersight Acquisition Co., Inc. for aggregate gross proceeds of approximately \$189,000. Cash charges incurred relate to expenditures associated with the postponed income trust of Custom Direct including costs incurred to settle a supply contract dispute.

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During 2001, the Company developed a plan to maximize the returns in its core businesses and construct an orderly exit from non-core activities. The plan included a reduction in the estimated useful life of deferred customer acquisition costs in the direct-to-consumer cheque market as a result of the absence of predictability in the direct response market, extensive cost reduction initiatives across the organization, including an approximate 15% reduction in the Company's workforce, the exit from certain leased facilities and the provisions against specific assets connected with various non-core businesses which will be exited in the foreseeable future. The resulting restructuring charge was comprised of non-cash charges of \$107,839 related to writedowns in customer acquisition costs and other specific assets. The Company disposed of 45.45% of Davis + Henderson for aggregate gross proceeds of approximately \$111,000. Cash charges amounted to \$13,675 related primarily to employee termination costs and vacated lease premises costs, of which \$949 was paid in 2003 (2002 - \$3,545, 2001 - \$6,225) with a balance of \$1,154 (2002 - \$2,103, 2001 - \$7,450) remaining in accounts payable.

14. Income Participation of Minority Partners

These amounts represent payments to minority shareholders of subsidiary companies pursuant to their respective shareholder agreements and adjustments to the minority interest position.

15. Income Taxes

The Company's provision (recovery) for income taxes is comprised as follows:

| | For the years ended December 31, | | |
|---------|----------------------------------|------------------------|------------------------|
| | 2003 | 2002 | 2001 |
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| Current | \$ 1,130 | \$ 1,051 | \$ 479 |
| Future | 6,612 | 20,870 | (21,045) |
| | \$ 7,742 | \$ 21,921 | \$ (20,566) |

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MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars,
except per share amounts)

December 31, 2003, 2002, 2001

15. Income Taxes (Continued)

Reconciliation to statutory rates is as follows:

| | For the years ended December 31, | |
|--|----------------------------------|----------|
| | 2003 | 2002 |
| | Restated | Restated |

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| | See Note 1 | See N |
|---|------------|-------|
| Provision for income taxes based on combined basic Canadian federal and provincial tax rate of 36.6% (2002 - 38.6%, 2001 - 42.1%) | \$ 3,940 | \$ |
| Increase (decrease) in taxes resulting from permanent differences | | |
| - Capital gains | (3,409) | (|
| - Other, including non-deductible goodwill charges | 2,098 | |
| Losses not recognized for income tax purposes | 5,113 | |
| | ----- | |
| Total provision (recovery) | \$ 7,742 | \$ |
| | ===== | |

Disclosed on the Consolidated Statements of Operations as follows:

| | For the years ended December | |
|--|------------------------------|------------------------|
| | 2003 | 2002 |
| | Restated See Note 1 | Restated See Note 1 |
| Income taxes | \$ 7,742 | \$ 21,921 |
| Recovery of income taxes related to goodwill charges | - | - |
| | ----- | |
| | \$ 7,742 | \$ 21,921 |
| | ===== | |

The tax effects of significant items comprising the Company's future tax assets and liabilities as at December 31 are as follows:

| | 2003 | 2002 |
|--|------------------------|-----------|
| | Restated See Note 1 | |
| Future tax assets | | |
| Differences between book and tax basis of equity transaction costs | \$ 853 | \$ 1,083 |
| Loss carryforwards related to equity transaction costs | 282 | 1,249 |
| Operating loss carryforwards and differences between book and tax basis | 10,428 | 17,317 |
| | ----- | |
| | \$ 11,563 | \$ 19,649 |
| | ===== | |

At December 31, 2003, the Company has income tax loss carryforwards of approximately \$32,000 which relate to the Company and certain subsidiaries, the

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tax benefits of which are likely to be realized, and therefore have been recognized in these financial statements. The tax loss carryforwards expire between 2004 and 2021. In addition, certain other subsidiaries have income tax loss carryforwards of approximately \$52,000, the tax benefit of which have not been recognized in these financial statements.

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of U.S. dollars, except per share amounts) December 31, 2003, 2002, 2001

16. Discontinued Operations

In December 1997, the Company adopted a plan to divest its Regal Greetings & Gift and Primes de Luxe ("Regal") operations. Accordingly, the results of Regal were reported as discontinued operations. Interest was allocated to such discontinued operations. During the second quarter of 2001, the Company recorded a provision of \$25,428 to cover the anticipated loss on disposal. The Company completed the disposal of Regal in the fourth quarter of 2001 for proceeds of approximately \$23,000 with no adjustment required to the provision.

| | For the years ended December 31, | | |
|-----------------------------------|----------------------------------|------|-------------|
| | 2003 | 2002 | 2001 |
| Sales | \$ - | \$ - | \$ 49,492 |
| Income from operations | - | - | - |
| Provision for loss on disposal | - | - | (25,428) |
| Loss from discontinued operations | \$ - | \$ - | \$ (25,428) |

17. Earnings per Share

Basic earnings per share has been calculated on a weighted average basis of Class A shares and Class B shares outstanding during the year and after giving effect to the net allocation to other paid-in capital related to the convertible debentures.

The calculation of diluted earnings per share is based upon the treasury method. The weighted average shares outstanding during the year are as follows:

| | For the years ended December 31, | | |
|--------------------------|----------------------------------|------------------------|------------|
| | 2003 | 2002 | 2001 |
| | Restated See Note 1 | Restated See Note 1 | |
| Basic | 17,791,064 | 16,915,341 | 16,885,877 |
| Impact of dilutive items | 492,823 | 8,703,827 | - |
| Diluted | 18,283,887 | 25,619,168 | 16,885,877 |

18. Commitments

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The Company has leased real estate and equipment at the following approximate annual base rental:

| | |
|------------|-----------|
| 2004 | \$ 12,097 |
| 2005 | 10,274 |
| 2006 | 8,329 |
| 2007 | 6,243 |
| 2008 | 5,947 |
| Thereafter | 16,624 |

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MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF U.S. DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002, 2001

19. CONTINGENT LIABILITIES

a) As at December 31, 2003, there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims, however, management believes that any such amounts would not have a material impact on the business or financial position of the Company.

b) Owners of interests in certain of the Company's subsidiaries have the right in certain circumstances to require the Company to purchase additional ownership stakes. A minority shareholder of one of the subsidiaries has given notice of intent to require the Company to purchase their remaining interest in the related subsidiary. The Company will be required to complete the purchase in the first quarter of 2004. It is estimated that this obligation will be approximately \$800.

c) The Company has agreed to provide to its Chairman, President and Chief Executive Officer a bonus of C\$10 million in the event that the market price of the Company's Class A subordinate voting shares is C\$30 per share or more for more than 20 consecutive trading days. The after-tax proceeds of such bonus are to be applied first as repayment of any outstanding loans due to the Company from this officer and his related companies. The loans due from the officer are non-interest bearing and are repayable only on the termination of the officer's employment. The loans due from the officer's related companies are non-interest bearing and substantially all of the amounts are repayable on November 1, 2007, have been personally guaranteed by the officer and in the event that the management services agreement with such company is terminated, 50% of the termination penalty payable by the Company must be applied against the outstanding loans. As at December 31, 2002, outstanding loans due from the officer and his related companies were C\$10,665 and C\$3,000, respectively, which, net of an aggregate C\$10,000 provision, results in C\$3,665 being recorded in the Company's accounts. During 2003, the officer repaid loans in the amount of C\$3,845 and as at December 31, 2003 the remaining outstanding loans from the officer and his related companies are C\$6,820 and C\$3,000, respectively, both of which have been fully provided for in the Company's accounts, as the Company anticipates such amounts will be recovered by payment of the bonus described above.

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20. RELATED PARTY TRANSACTIONS

The Company incurred fees totaling \$8,006 (2002 - \$2,421, 2001 - \$3,466) to companies controlled by an officer of the Company in respect of services provided including merger and acquisition, financial and administrative. In addition, the Company has non-interest bearing notes receivable from an officer of the Company and from companies controlled by the same officer as described in note 19(c) above.

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MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, except per share amounts)

21. Subsequent Events

On January 29, 2004, the Company purchased a 60% interest in kirshenbaum bond + partners for cash consideration of approximately \$20,000 and share consideration of approximately \$1,800.

On February 13, 2004, the Company applied its units of the Fund in full settlement of the adjustable rate exchangeable securities.

22. Segmented Information

Based on the Company's internal management structure, the Company's continuing operations are in primarily two business segments - Marketing Communications and Secure Transactions. Marketing Communications services, through MDC's network of entrepreneurial firms, include advertising and media, customer relationship management, and marketing services. Secure Transactions operations provide security products and services in three primary areas: electronic transaction products such as credit, debit, telephone and smart cards; secure ticketing products such as airline, transit and event tickets; and stamps, both postal and excise. The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies.

| | FOR THE YEAR ENDED DECEMBER 31, 2004 | | |
|------------------|--------------------------------------|------------------------|------------------------|
| | Marketing Communications | Secure Transactions | Corporate & Other |
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| EARNINGS: | | | |
| Gross billings | \$ 433,336 | \$ 113,927 | \$ 1,267 |
| Revenues | \$ 189,742 | \$ 113,927 | \$ 1,267 |
| Operating costs | | | |
| Cost of sales | - | 56,654 | - |

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| | | | |
|---|----------|---------|---------|
| Salaries and related costs | 88,765 | 17,637 | 2,826 |
| General and other operating costs | 74,270 | 27,369 | 5,185 |
| Other charges (recoveries) | - | - | 1,333 |
| | 163,035 | 101,660 | 9,344 |
| Operating income (loss) before other income (charges) | 26,707 | 12,267 | (8,077) |
| Net gain on asset dispositions and other charges | (111) | 8,207 | 3,368 |
| Unrealized foreign exchange loss | (2,023) | - | - |
| Amortization | (5,672) | (3,803) | (887) |
| Amortization of deferred finance charges | (2,225) | - | - |
| Interest, net | (6,282) | (4,850) | (366) |
| Income participation of minority partners | (5,489) | - | - |
| | (21,802) | (446) | 2,115 |
| Income (loss) before income taxes and minority interest | 4,905 | 11,821 | (5,962) |
| Income taxes (recovery) | 1,852 | 6,087 | (197) |
| Income (loss) before minority interest | 3,053 | 5,734 | (5,765) |
| Equity in affiliates | - | - | 1,850 |
| Minority interest (recovery) | - | (1,536) | 492 |
| Net income (loss) for the year | 3,053 | 7,270 | (4,407) |

ASSETS

| | | | |
|--------------------------------|------------|--------|--------|
| Total assets | \$ 225,788 | 47,939 | 73,163 |
| Expenditures on capital assets | \$ 6,975 | 11,731 | - |

MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, except per share amounts)

22. Segmented Information (Continued)

FOR THE YEAR

| | |
|--------------------------|---------------------|
| Marketing Communications | Secure Transactions |
|--------------------------|---------------------|

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Restated
See Note 1

EARNINGS:

| | | |
|--|------------|------------|
| Gross billings | \$ 379,776 | \$ 212,998 |
| Revenues | \$ 167,268 | \$ 212,998 |
| Operating costs | | |
| Cost of sales | - | 98,304 |
| Salaries and related costs | 79,703 | 28,781 |
| General and other operating costs | 66,570 | 48,224 |
| | 146,273 | 175,309 |
| Operating income (loss) before other income (charges) | 20,995 | 37,689 |
| Net gain on asset dispositions and other charges | (576) | 100,219 |
| Unrealized foreign exchange gain | - | - |
| Amortization | (6,173) | (7,214) |
| Amortization of deferred finance charges | (1,400) | - |
| Interest, net | (5,301) | (10,767) |
| Income participation of minority partners | (3,228) | - |
| | (16,678) | 82,238 |
| Income (loss) before income taxes and minority interest | 4,317 | 119,927 |
| Income taxes (recovery) | 1,413 | 22,248 |
| Income (loss) before minority interest | 2,904 | 97,679 |
| Minority interest | - | 2,379 |
| Net income (loss) for the year | \$ 2,904 | \$ 95,300 |

ASSETS

| | | |
|--------------------------------|------------|------------|
| Total assets | \$ 204,862 | \$ 162,168 |
| Expenditures on capital assets | \$ 3,813 | \$ 4,654 |

MDC Partners Inc.
Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, except per share amounts)

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22. Segmented Information (Continued)

| | FOR THE YEAR | |
|--|---|------------------------|
| | Marketing Communications Restated Note 1 | Secure Transactions |
| EARNINGS: | | |
| Gross billings | \$ 384,697 | \$ 304,030 |
| Revenues | \$ 174,255 | \$ 304,030 |
| Operating costs | | |
| Cost of sales | - | 138,797 |
| Salaries and related costs | 86,676 | 40,646 |
| General and other operating costs | 66,593 | 62,355 |
| | 153,269 | 241,798 |
| Operating income (loss) before other income (charges) | 20,986 | 62,232 |
| Net gain (loss) on asset dispositions and other charges | (9,140) | (7,838) |
| Unrealized foreign exchange loss | - | - |
| Amortization | (5,872) | (13,798) |
| Amortization of deferred finance charges | (782) | - |
| Interest, net | (4,155) | (10,344) |
| Income participation of minority partners | (2,987) | - |
| | (22,936) | (31,980) |
| Income (loss) before income taxes, goodwill and minority interest | (1,950) | 30,252 |
| Income taxes (recovery) | (1,405) | 12,173 |
| Income (loss) before goodwill and minority interest | (545) | 18,079 |
| Goodwill charges | 9,712 | 14,705 |
| Minority interest (recovery) | - | (642) |
| Income (loss) from continuing operations | \$ (10,257) | \$ 4,016 |

ASSETS

Restated
See Note 1

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| | | |
|--------------------------------|------------|------------|
| Total assets | \$ 239,180 | \$ 266,444 |
| Expenditures on capital assets | \$ 4,146 | \$ 10,709 |

MDC Partners Inc. Notes to Consolidated Financial Statements
(in thousands of U.S. dollars, except per share amounts)

22. Segmented Information (Continued)

GEOGRAPHIC INFORMATION

Revenues

| | 2003 | 2002 | 2001 |
|-----------------|------------------------|------------------------|------------------------|
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| Canada | \$ 92,987 | \$ 139,017 | \$ 221,356 |
| United States | 184,985 | 220,104 | 245,476 |
| Other countries | 26,964 | 28,070 | 37,694 |
| Total | \$ 304,936 | \$ 387,191 | \$ 504,526 |

Capital Assets and Goodwill

| | 2003 | 2002 | 2001 |
|-----------------|------------------------|------------------------|------------------------|
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| Canada | \$ 48,001 | \$ 51,329 | \$ 130,392 |
| United States | 93,023 | 169,000 | 206,640 |
| Other countries | 5,369 | 13,550 | 22,345 |
| Total | \$ 146,393 | \$ 233,879 | \$ 359,377 |

MDC PARTNERS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF US DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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(GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP

The following are the significant adjustments required to give effect to the differences between U.S. GAAP and Canadian GAAP which is the basis of presentation for the consolidated financial statements of the Company. Refer to Note 1 Restatement of Financial Statements for a description of the causes of the restatement of certain of the financial information presented in this note:

(a) Prior to January 1, 2003 certain deferred charges in respect of the Company's Custom Direct Inc. operations, which were capitalized under Canadian GAAP, were expensed in the period incurred under U.S. GAAP.

(b) Prior to January 1, 2001, under Canadian GAAP, the Company had a policy of including certain internal acquisition costs as part of the purchase price of businesses acquired. U.S. GAAP does not permit capitalization of these costs.

(c) Under Canadian GAAP, convertible debt is allocated between debt and a separate component of shareholders' equity with additional amounts capitalized annually to the equity portion of the debt in order that the equity portion of the debt equal the face value at maturity. Under U.S. GAAP, convertible debt remains debt until converted or extinguished and interest is charged to income in the period incurred.

(d) Future Income Taxes

Prior to January 1, 2000, under Canadian GAAP, future tax debits were recorded only when there was reasonable assurance they would be realized. Under U.S. GAAP, such debits are recorded and then reduced through a valuation adjustment if it is more likely than not that some, or all, of the deferred tax asset will not be realized. The Company did not record a future tax asset relating to net operating loss carryforwards and other income tax benefits acquired in connection with certain business acquisitions. The acquired entities had losses and other benefits available for tax purposes amounting to \$Nil (2002 and 2001 - \$40,000). The total value of the future tax asset amounts to \$Nil (2002 and 2001 - \$15,200). For U.S. purposes, the future tax asset was reduced by a valuation adjustment in the same amount.

(e) Under Canadian GAAP, the Company reflected share purchase loans as assets based on the economic substance of the arrangement. U.S. GAAP requires that these advances be shown as contra-equity. As at December 31, 2003 share purchase loans outstanding amounted to \$Nil (2002 - \$3,550 and 2001 - \$4,711).

(f) The Company has disclosed income before goodwill charges and minority interest which is not permitted disclosure under U.S. GAAP.

(g) Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income, requires the disclosure of comprehensive income (loss), which consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of cumulative translation adjustments that are presented as a separate section of shareholders' equity on the balance sheet.

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF US DOLLARS,
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DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

(h) Under U.S. GAAP, the Company would have been required to adopt SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period either in current results of operations or other comprehensive income (loss). For a derivative designated as part of a hedge transaction, where it is recorded is dependent on whether it is a fair value hedge or a cash flow hedge. For a derivative designated as a fair value hedge, the gain or loss of the derivative in the period of change and the offsetting loss or gain of the hedged item attributed to the hedged risk are recognized in results of operations. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (loss) and subsequently reclassified into results of operations when the hedged exposure affects results of operations. The ineffective portion of the gain or loss of a cash flow hedge is recognized currently in results of operations. For a derivative not designated as a hedging instrument, the gain or loss is recognized currently in results of operations.

The Company used interest rate and cross currency swaps to hedge a portion of its debt obligations and future interest payments. The Company had not designated these derivative instruments as hedging transactions for US GAAP purposes. The Company does not enter into derivative contracts for trading purposes. The adoption of SFAS 133 for U.S. GAAP purposes resulted in the cumulative effect of an accounting change of \$5,650 as at December 31, 2001. As at December 31, 2002 all such derivative instruments had been terminated.

At December 31, 2003, the Company's adjustable rate exchangeable securities include an embedded derivative related to the underlying Custom Direct Income Fund Units for which the securities were exchangeable. Under US GAAP the Company must recognize in earnings in each period the change in the fair value of the embedded derivative. This resulted in a loss on the derivative of \$3,974. Under Canadian GAAP, EIC 117 prohibits the bifurcation of the embedded derivative. In addition, under EIC 56, until such time as the exchange right is no longer contingent upon future events, no adjustments to the carrying value of the debenture are permitted.

(i) Investments where the Company exercises joint control have been accounted for on the proportionate consolidation basis under Canadian GAAP. For 2003 and 2002, amounts reported for U.S. GAAP purposes have been revised to reflect the investment on an equity basis. This policy did not give rise to material differences in 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires companies to recognize costs associated with exit or disposal of activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The

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adoption of SFAS No. 146 did not have any immediate impact on our results of operations or financial position.

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF US DOLLARS,
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DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

In November 2002, EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21) was issued. EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company's adoption EITF 00-21 did not have a material effect on our results of operations or financial condition.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing the guarantee. FIN 45 also requires guarantors to disclose certain information for guarantees, beginning December 31, 2002. The adoption of FIN 45 did not have a material effect on our results of operations or financial condition and these financial statements contain the required disclosures.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment of FASB Statement No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, the statement amends the disclosure provisions of SFAS No. 123 to require prominent disclosure in financial statements about the method for accounting for stock-based compensation and the effect of the method used on reported results. Finally, this statement amends Accounting Principles Board (APB) Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. The amendments to SFAS No. 123 that provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation are effective for financial statements for fiscal years ending after December 15, 2002. The amendment to SFAS No. 123 relating to disclosures and the amendment to APB Opinion No. 28 is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A variable interest entity is an entity in which the equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from other parties. We do not have any variable interest entities that must be

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consolidated.

MDC PARTNERS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS OF US DOLLARS,
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DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Implementation of this standard did not have a material effect on our results of operations or financial position.

Operations

| | 2003 Restated See Note 1 | 2002 Restated See Note 1 | 2001 Restated See Note 1 |
|--|--------------------------------|--------------------------------|--------------------------------|
| Income (loss) from continuing operations before income taxes as reported under Canadian GAAP | \$ 13,658 | \$ 116,181 | \$ 116,181 |
| Adjustments | | | |
| Gain on dispositions | 11,121 | 3,209 | - |
| Loss on embedded derivative in long-term debt | (3,974) | - | - |
| Deferred charges | - | (134) | - |
| Unrealized financial derivative gain | - | 4,437 | - |
| Reduction of amortization | 741 | 1,322 | - |
| Interest on convertible debt | (1,692) | (1,582) | - |
| Income (loss) from continuing operations before income taxes, U.S. GAAP | 19,854 | 123,433 | 116,181 |
| Income taxes (recovery) | | | |
| Current | 1,130 | 1,051 | - |
| Deferred | 6,293 | 25,396 | - |
| | 7,423 | 26,447 | - |
| Net income (loss) from continuing operations | 12,431 | 96,986 | 116,181 |
| Cumulative effect of change in accounting principle | - | (62,477) | - |

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| | | | |
|---|----------|-----------|----|
| Loss from discontinued operations | - | - | |
| Net income (loss), U.S. GAAP | 12,431 | 34,509 | |
| Other comprehensive income, net of tax Cumulative translation adjustment | (11,215) | 5,240 | |
| Comprehensive income (loss), U.S. GAAP | \$ 1,216 | \$ 39,749 | \$ |

MDC PARTNERS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS OF US DOLLARS,
EXCEPT PER SHARE AMOUNTS)

DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

| | 2003 | 2002 | |
|---|------------------------|------------------------|------|
| | Restated See Note 1 | Restated See Note 1 | |
| Earnings (loss) per Class A and Class B share, under U.S. GAAP, from continuing operations: | | | |
| Basic | \$ 0.70 | \$ 5.73 | \$ |
| Diluted | \$ 0.65 | \$ 3.84 | \$ |
| Net Income (loss) per Class A and Class B share, as reported: | | | |
| Basic | \$ 0.70 | \$ 2.04 | \$ |
| Diluted | \$ 0.65 | \$ 1.40 | \$ |
| Weighted average number of shares | | | |
| Basic | 17,791,064 | 16,915,341 | 16,8 |
| Diluted | 21,665,530 | 25,619,168 | 16,8 |

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MDC PARTNERS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

Cash Flows

Consolidated statement of cash flows under U.S. GAAP:

| | 2003 | 2002 |
|--|------------|-----------|
| | Restated | |
| | See Note 1 | |
| <hr/> | | |
| Cash provided by (used in) | | |
| Operating activities | | |
| Operations | | |
| Loss from continuing operations | \$ 12,431 | \$ 96,986 |
| Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities | | |
| Amortization | 11,450 | 14,433 |
| Stock-based compensation | 6,182 | - |
| Restructuring, dispositions and other charges, non-cash | (33,059) | (105,594) |
| Restructuring, dispositions and other charges accrued to accounts payable | (949) | (3,545) |
| Goodwill charges | 10,012 | - |
| Interest capitalized to debt | 4,557 | 3,368 |
| Unrealized financial derivative gain | - | (4,437) |
| Deferred income taxes | 6,293 | 25,396 |
| Unrealized foreign exchange loss (gain) | 2,023 | (4,380) |
| Increase (decrease) in accounts receivable | (5,194) | 5,872 |
| Increase (decrease) in accounts payable | 2,892 | (6,103) |
| Other | (1,659) | (3,136) |
| | <hr/> | <hr/> |
| | 14,979 | 18,860 |
| <hr/> | | |
| Investing activities | | |
| Business investments, acquisitions and divestitures, net of cash acquired | 88,440 | 161,302 |
| Purchase of capital and other assets | (12,111) | (9,322) |
| | <hr/> | <hr/> |
| | 76,329 | 151,980 |
| <hr/> | | |

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MDC PARTNERS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS OF US DOLLARS,
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DECEMBER 31, 2003, 2002 AND 2001

23. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES ("U.S.") GAAP (CONTINUED)

| | 2003 | 2002 | |
|--|-----------|-----------|----|
| ----- | | | |
| Financing activities | | | |
| Issuance of long term indebtedness | 37,472 | 5,955 | |
| Repayment of long term indebtedness | (88,993) | (186,869) | (1 |
| Issuance of share capital | 3,031 | - | |
| Redemption of share capital | (13,662) | - | |
| | (62,152) | (180,914) | (|
| ----- | | | |
| Foreign exchange gain on cash held in foreign currencies | 5,547 | 6,092 | |
| ----- | | | |
| Increase (decrease) in cash and equivalents | 34,703 | (3,982) | |
| Cash and equivalents, beginning of year | 31,226 | 35,208 | |
| ----- | | | |
| Cash and equivalents, end of year | \$ 65,929 | \$ 31,226 | \$ |
| ----- | | | |
| Non-cash investing and financing activity: | | | |
| Common stock issued for acquisitions | \$ 25,985 | \$ - | \$ |
| Stock options and warrants issued for Acquisitions | 2,530 | - | |
| Increase (decrease) in minority interest | (7,366) | - | |
| ----- | | | |
| Net non-cash activities related to acquisitions | \$ 21,149 | \$ - | \$ |
| ----- | | | |

The Company's cash equivalents are comprised of commercial paper and treasury bills with maturity dates three months or less from the date of purchase.

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of US dollars, except per share amounts) December 31, 2003, 2002 and 2001

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23. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("U.S.") GAAP -
(Continued)

The following are balance sheet items which are affected by GAAP differences:

| | In accordance with Canadian GAAP As restated | | | In a |
|---|---|------------------------|------------------------|------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 | Restated See Note 1 |
| Current assets | \$ 164,673 | \$ 118,416 | \$ 168,526 | \$ 144,54 |
| Capital and other | 80,438 | 80,048 | 104,474 | 93,79 |
| Goodwill | 101,779 | 185,529 | 290,416 | 83,19 |
| Current liabilities | 125,669 | 123,349 | 155,400 | 105,91 |
| Long term indebtedness | 102,112 | 155,514 | 331,158 | 134,28 |
| Share capital | 117,292 | 96,407 | 95,111 | 115,99 |
| Contributed surplus | 4,610 | - | - | 4,61 |
| Other paid in capital | 30,851 | 24,179 | 32,687 | |
| Share purchase loans | - | - | - | |
| Cumulative translation adjustment | (2,365) | 7,858 | 3,447 | |
| Accumulated other comprehensive income | - | - | - | (2,52 |
| Retained earnings (accumulated deficit) | (33,711) | (33,019) | (63,826) | (39,16 |

Reconciliation of shareholders' equity between Canadian GAAP and U.S. GAAP:

| | 2003 Restated See Note 1 | 2002 Restated See Note 1 | |
|---|--------------------------------|--------------------------------|----|
| Shareholders' equity as reported in the Canadian GAAP consolidated financial statements | \$ 116,677 | \$ 95,425 | \$ |
| Less: Other paid in capital | (30,851) | (24,179) | (|
| Capitalization of deferred charges, net of amortization | - | (658) | (|
| Costs of acquisitions, net of goodwill amortization | (2,943) | (13,122) | (|
| Share purchase loans | - | (3,550) | (|
| Deferred finance costs regarding convertible debt, net of amortization | - | - | - |
| Unrealized derivative losses | (3,974) | - | - |
| Interest regarding convertible debt | - | - | - |
| Tax effect on above adjustments | - | 263 | - |
| Shareholders' equity according to U.S. GAAP | \$ 78,909 | \$ 54,179 | \$ |

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The following is a summary of the calculation of the income and number of shares used in calculating basic and diluted EPS:

| | 2003 Restated See Note 1 | 2002 Restated See Note 1 | |
|---|--------------------------------|--------------------------------|------|
| Income used to compute Basic EPS | | | |
| Income (loss) from continuing operations, U.S. GAAP | \$ 12,431 | \$ 96,986 | \$ (|
| Add: Effect of interest on convertible notes | 1,552 | 1,369 | |
| Income used to compute Diluted EPS | \$ 13,983 | \$ 98,355 | \$ (|
| Shares used to compute Basic EPS | 17,791,064 | 16,915,341 | 16,8 |
| Add: Effect of convertible notes | 3,381,643 | 8,665,511 | |
| Add: Stock options | 492,823 | 38,316 | |
| Shares used to compute Diluted EPS | 21,665,530 | 25,619,168 | 16,8 |

MDC Partners Inc. Notes to Consolidated Financial Statements (in thousands of US dollars, except per share amounts) December 31, 2003, 2002 and 2001

23. Reconciliation of Results Reported in Accordance with Generally Accepted Accounting Principles (GAAP) in Canada with United States ("U.S.") GAAP - (Continued)

For the year ended December 31, 2003, 593,219 options and 507,146 warrants were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

Employee Share Option Incentive Plan

Prior to 2003, SFAS No. 123, Accounting for Stock-Based Compensation prior to 2003, the Company provided pro forma information regarding net income and earnings per share as if compensation cost for the Company's share option plan had been determined in accordance with the fair value based method prescribed in SFAS 123. The Company estimates the fair value of each share option on the date of the grant using the Black-Scholes option-pricing model with the following assumptions used for grants in the years ended December 31, 2002 and 2001: risk-free interest rate of 6%; expected volatility of 40%; expected option life of 5 years; and no dividend payments.

The following pro forma net income and earnings per share are presented for informational purposes and have been computed using the fair value method of accounting for share-based compensation as set forth in SFAS No. 123:

| | 2002 | 2001 |
|-----------------------------|------------------------|--------------|
| | ===== | |
| | Restated See Note 1 | |
| Pro forma net income (loss) | \$ 34,438 | \$ (100,652) |

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Pro forma net income (loss) per share:

| | | |
|---------|---------|-----------|
| Basic | \$ 2.04 | \$ (5.96) |
| Diluted | \$ 1.40 | \$ (5.96) |

Under US GAAP, in thousands of United States Dollars, the Company's Balance Sheet as of December 31, 2003 was as follows:

ASSETS

Current Assets:

| | |
|---|-----------|
| Cash and cash equivalents | \$ 65,929 |
| Accounts receivable, net | 58,864 |
| Expenditures billable to clients | 7,153 |
| Inventories | 7,735 |
| Prepaid expenses and other current assets | 4,863 |
| Total Current Assets | 144,544 |

| | |
|--------------------------|------------|
| Fixed Assets, net | 38,775 |
| Investment in Affiliates | 34,362 |
| Goodwill | 83,199 |
| Deferred Tax Benefits | 11,563 |
| Other Assets | 9,096 |
| Total Assets | \$ 321,539 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | |
|------------------------------------|-----------|
| Accounts payable | \$ 38,451 |
| Accruals and other liabilities | 34,245 |
| Advance billings | 15,731 |
| Current portion of long-term debt | 16,378 |
| Deferred acquisition consideration | 1,113 |
| Total Current Liabilities | 105,918 |

| | |
|-------------------|---------|
| Long-Term Debt | 95,970 |
| Convertible Notes | 37,794 |
| Other Liabilities | 516 |
| Total Liabilities | 240,198 |

| | |
|-------------------|-------|
| Minority Interest | 2,432 |
|-------------------|-------|

Contingencies

Shareholders' Equity:

| | |
|-----------------------------|----------|
| Share capital | 115,996 |
| Additional paid-in capital | 4,610 |
| Retained earnings (deficit) | (39,169) |

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| | |
|---|------------|
| Accumulated other comprehensive income (loss) | (2,528) |
| | ----- |
| Total Shareholders' Equity | 78,909 |
| | ----- |
| Total Liabilities and Shareholders' Equity | \$ 321,539 |
| | ===== |

Under US GAAP, in thousands of United States Dollars, the Company's Statement of Operations for the year ended December 31, 2003 was as follows:

| | |
|--|------------|
| Revenue: | |
| Services | \$ 171,583 |
| Products | 113,927 |
| | ----- |
| | 285,510 |
| | ----- |
| Operating Expenses: | |
| Cost of products sold | 56,654 |
| Salary and related costs | 107,228 |
| General and other operating costs | 100,435 |
| Other charges | 1,333 |
| Depreciation and amortization | 9,225 |
| Write-down of fixed assets and other assets | 8,126 |
| Goodwill charges | 10,012 |
| | ----- |
| | 293,013 |
| | ----- |
| Operating Profit (Loss) | (7,503) |
| | ----- |
| Other Income (Expenses): | |
| Gain on sale of assets and settlement of long-term debt | 42,134 |
| Foreign exchange gain (loss) | (2,023) |
| Interest expense | (16,060) |
| Interest income | 937 |
| | ----- |
| | 24,988 |
| | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 17,485 |
| Income Taxes | 5,538 |
| | ----- |
| Income Before Equity in Affiliates and Minority Interests | 11,947 |
| Equity in Affiliates | 4,929 |
| Minority Interests in Income of Consolidated Subsidiaries | (4,445) |
| | ----- |
| Net Income | \$ 12,431 |
| | ===== |

Document No. 3

Management's Discussion & Analysis

The following discussion focuses on the operating performance of MDC Partners Inc. (the "Company") for the years ended December 31, 2003 and 2002, and its

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financial condition as at December 31, 2003. This analysis should be read in conjunction with the annual audited consolidated financial statements. Additional information relating to the Company, including the Company's AIF, is available on SEDAR at www.sedar.com.

The annual audited consolidated statements, the management's discussion and analysis and all other information contained in this Annual Report are the responsibility of management. The Board of Directors is responsible for reviewing and approving the financial information contained in this Annual Report and for overseeing management's responsibilities for the presentation and preparation of financial information.

The financial data contained in this Annual Report has been prepared in accordance with generally accepted accounting principles in Canada. All amounts are in U.S. dollars unless otherwise stated.

Restatement of Financial Statements

The Company restated its financial statements for the years ended December 31, 2003 and 2002 Refer to Note 1 of the notes to consolidated financial statements of the Company's Consolidated Financial Statements included herein.

The Company has restated and reflected corresponding corrections to the Management Discussion and Analysis. This Form 40-F/A does not reflect events occurring after the original filing date of the Form 40-F.

OVERVIEW AND OPERATING STRATEGIES

The Company's objective is to create long-term shareholder value by building market-leading companies that deliver innovative, value-added products and services to their customers. Management believes that long-term shareholder value is maximized with an operating philosophy of partnership with proven, committed industry leaders.

The Company operates in two business segments:

Marketing Communications

MDC Partners is one of the world's leading marketing communications firms. Through its partnership of entrepreneurial firms, MDC provides advertising and specialized communications services to leading brands throughout the United States, Canada and the United Kingdom.

The Company's objective is to drive growth in its Marketing Communications Division by building a network of marketing communications firms. This network is designed to foster an environment where the industry's leading talent will want to live through ownership and entrepreneurial drive.

Secure Products International

Secure Products International operations provide security products and services in three primary areas:

Metaca Corporation ("Metaca") - the second largest provider of credit, debit and smart cards in Canada, and in Australia through its subsidiary Placard Pty Ltd.

Mercury Graphics ("Mercury") - a major supplier of secure ticketing products to leading airline, sports, entertainment and transit companies.

Ashton-Potter (USA) Ltd. and Ashton-Potter Canada Ltd. ("Ashton-Potter") -

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providers of highly specialized postage stamp printing services to the United States Postage Service ("USPS"), government and tax authorities.

Management believes that long-term success is achieved through the investment in entrepreneurs, within the marketing communications industry, that have significant potential for organic growth beyond industry averages. This will be supplemented with strategic acquisitions. The Company will provide its partners with strategic input and access to capital, to allow them to build on their diverse strengths.

In the marketing communications sector, successful firms must meet the increasing demands of clients for innovative programs and creative content, combined with a high-quality, reliable service delivery. This requires the talents, relationships, and leadership of key executives and management personnel. Accordingly, management's ongoing strategy is to acquire ownership stakes in well-managed businesses with strong reputations in the industry, using its Perpetual Partnership(TM) model to create incentive and retain key personnel.

Success in Secure Products International requires companies to offer their customers innovative products, highly reliable service, and the consistent delivery of highly specialized, secure products on a price-competitive basis. Revenues are derived from both long-term contracts and competitive bids. The Company Management's Discussion & Analysis (continued) has strong relationships with its customers, has partnered with experienced management, and has invested in leading edge technology, providing it with the expertise and cost structures to meet customer needs.

The Company has undertaken several initiatives to ensure that it has sufficient liquidity and capital resources. Proceeds from the sale of Custom Direct Inc. throughout 2003 allowed the Company to redeem the balance of its outstanding 10.5% unsecured senior subordinated notes ("Notes"), investment spend in plant and equipment in all facets of the business, and complete a significant acquisition, 60% of kirshenbaum bond + partners, in January 2004.

During 2003, the Company successfully completed the privatization of Maxxcom Inc., through the issuance of 2.47 million Class A subordinate voting shares and solidified its core focus to grow in the marketing communications sector.

With a stronger, de-leveraged balance sheet, the Company intends to complete a financing that will repay existing indebtedness at Maxxcom, reduce borrowing costs and provide liquidity for future acquisitions.

Selected Consolidated Annual Financial Information

| (in thousands of U.S. dollars, except per share amounts) | 2003 | 2002 |
|--|------------------------|------------------------|
| | Restated See Note 1 | Restated See Note 1 |
| Revenues | \$304,936 | \$ 387,191 |
| Income (loss) from continuing operations | \$ 5,916 | \$ 94,260 |
| Net income (loss) for the year | \$ 5,916 | \$ 94,260 |
| Earnings per share | | |

Income (loss) from continuing operations

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| | | |
|------------------------|------------|------------|
| Basic | \$ 0.27 | \$ 5.51 |
| Diluted | \$ 0.26 | \$ 3.73 |
| Net income (loss) | | |
| Basic | \$ 0.27 | \$ 5.51 |
| Diluted | \$ 0.26 | \$ 3.73 |
| Assets | \$ 346,890 | \$ 383,993 |
| Long-term indebtedness | \$ 120,758 | \$ 159,602 |

RESULTS OF OPERATIONS

Revenues

On a consolidated basis, revenues for the year were \$304.9 million, a decrease of 21% or \$82.2 million compared to \$387.1 million in 2002. The significant improvement in revenues reported by the Marketing Communications Division was more than offset by the impact of divestitures on the revenues of Secure Products International and Corporate and Other operations.

Gross billings of the Marketing Communications Division totaled \$433.3 million in 2003, 14% or \$53.5 million greater than the previous year. Revenues were \$189.7 million, an improvement of \$22.4 million or 13% from the \$167.3 million achieved in 2002. This increase was primarily due to an increase in demand for direct marketing and database management services, particularly in the United States, and market research and advertising services in all geographic segments. Additionally, a weakening of the U.S. dollar throughout 2003 as compared to 2002 resulted in increased contribution from the division's Canadian- and U.K.-based operations.

Revenues represent gross billings less the recovery of certain costs that are normally characterized as pass-through billings. Gross billings reflect all amounts billed by the Company. Revenues include items such as commissions earned from advertising placed with media and fees derived from all other services provided, but exclude amounts billed to clients solely to recover costs incurred (for example, media time and production materials and services). Revenues are generally viewed as the most appropriate measure of sales for marketing communications companies because gross billings may vary significantly due to the volume of pass-through costs, which ultimately result in very little impact on revenues.

The table below describes the revenues of the Marketing Communications Division by client industry sector and demonstrates both a diversified base and a significant shift to telecommunications-based client spending, with a significant decrease in healthcare and financial services sectors' client spending as compared to 2002.

| (in thousands of U.S. dollars) | 2003 | | 2002 | |
|--------------------------------|---------------------|-----|----------|-----|
| | ----- | | | |
| | Restated See Note 1 | | | |
| Agriculture | \$ 5,857 | 3% | \$ 6,047 | 4% |
| Automotive | 12,868 | 7% | 8,571 | 5% |
| Consumer products | 71,666 | 38% | 60,190 | 36% |
| Financial services | 21,313 | 11% | 23,438 | 14% |
| Healthcare | 11,198 | 6% | 17,434 | 10% |
| Media | 5,389 | 3% | 2,040 | 1% |
| Telecommunications | 41,688 | 22% | 28,445 | 17% |
| Government | 4,765 | 2% | 6,948 | 4% |
| Information technology | 5,231 | 3% | 3,137 | 2% |
| Energy | 3,408 | 2% | 1,445 | 1% |
| Other | 6,359 | 3% | 9,573 | 6% |

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| | | | | | |
|--|------------|------|--|------------|------|
| | \$ 189,742 | 100% | | \$ 167,268 | 100% |
|--|------------|------|--|------------|------|

Historically, with the exception of 2001, the Marketing Communications Division's fourth quarter generates the highest quarterly revenues in a year. During the fourth quarter of 2003, revenues increased 18% as compared to the same quarter in 2002, largely as a result of an increase in excess of 47% quarter-over-quarter in revenues from U.S. direct marketing and database management services. Similar to the yearly results, clients in the telecommunications industry were the largest contributors to this growth.

Revenues of Secure Products International, at \$113.9 million for the year ended December 31, 2003, decreased \$99.1 million or 47% compared to 2002. The decrease was primarily attributable to the revenues of divested operations included in the prior-year results. The revenues of the remaining operations decreased \$1.0 million year-over-year. Each of the stamp, card and ticketing operations contributed to the improvement with increases in revenues of \$0.2 million and \$1.1 million, respectively, partially offset by a \$2.3 million decrease in revenues of the card operation.

Revenues of the Company's Corporate and Other operations decreased \$5.6 million to \$1.3 million from the \$6.9 million reported in 2002, primarily due to the divestiture of A.E. McKenzie Co. Inc. in 2002.

Operating Costs

Consolidated operating costs were \$274.0 million, representing a decrease of 18% or \$58.5 million from the operating costs of \$332.5 million incurred in the previous year.

The operating costs of Marketing Communications amounted to \$163.0 million for the year compared to \$146.3 million in 2002. The 11% or \$16.7 million increase was primarily due to the increased revenues, partially offset by the elimination of head office costs due to the privatization of Maxxcom on July 31, 2003. Operating costs expressed as a percentage of revenues were 85.9% in 2003 versus 87.4% in 2002. Salaries and related costs increased \$9.1 million compared to the previous year, but were slightly lower as a percentage of revenues year-over-year. This was in large part due to the shift in mix of the operation's revenues to increased direct marketing and database management services.

Secure Products International experienced operating costs of \$101.7 million in 2003, \$73.6 million lower than 2002 due primarily to divested operations partially offset by an increase in costs related to preparation for increased production under the long-term USPS contract, combined with the impact of a stronger Canadian dollar on the operating costs at Canadian facilities. As a percentage of sales, total operating costs for Secure Products International increased from 82.3% in 2002 to 89.2% in 2003. Cost of sales increased to 49.7% of sales in 2003 compared to 46.2% of sales in 2002, and salaries and related costs increased from 13.5% to 15.5% of sales, while other operating costs increased as a percentage of sales to 24.0% from 22.6%.

The operating costs of Corporate and Other operations were \$9.3 million, \$1.6 million less than the \$10.9 million of 2002. The decrease was primarily related to operations that were disposed, partially offset by additional costs allocated to Corporate and Other with the merger of head offices upon the privatization of Maxxcom in 2003, including a \$1.3 million charge to related to severances.

Operating Income before Other Income (Charges) Operating income before other charges was \$30.9 million for 2003, reflecting a decrease of \$23.8 million or

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44% from the \$54.7 million achieved in 2002, largely due to the dispositions completed by the Secure Products International partially offset by the increased operating income of Marketing Communications.

Marketing Communications contributed \$26.7 million in operating income before other charges for the year compared with \$21.0 million in 2002. Operating margins improved to 14.1% of sales versus 12.6% of sales in 2002. These improvements were primarily the result of higher revenues combined with cost reductions that were achieved through the merger of head offices related to the privatization of Maxxcom. Several external factors continued to influence operating margin levels. Client spending remained tentative for much of 2003 as throughout 2002; however, the volume of client activity and the level of new business opportunities increased somewhat in 2003, particularly through the third and fourth quarters. The types of services provided in 2003 and 2002 reflected the shift to more directly measurable services. Significant pricing and profitability pressures have resulted from the combination of an increased sensitivity to the fees charged for these services and aggressive competition from marketing communications companies of all sizes.

Secure Products International earned \$12.3 million of operating income before other charges, a decrease of \$25.4 million or 67% from the prior-year income of \$37.7 million. Operating income as a percentage of sales was 10.8% this year compared to 17.7% last year. The ongoing operations of Secure Products International reported a decrease in operating income of \$3.1 million compared to 2002. The higher operating costs in U.S. dollars from Canadian facilities as a result of a stronger Canadian dollar and the increased costs of the stamp operations were only partially offset by an improvement in operating income from Placard, the Australian card business. The increased costs incurred in the stamp operations resulted from significant outsourcing of production while a plant expansion and the installation of new manufacturing equipment was completed.

The operating loss attributable to Corporate and Other operations was \$8.1 million in 2003 compared to \$4.0 million in 2002, the result of increased head office costs, partially offset by the effect of dispositions.

Net Gain on Asset Dispositions and Other Charges

The net gain on asset dispositions and other charges was \$11.5 million for 2003. Of this, \$35.0 million related to net gains on asset dispositions, primarily due to the disposal of 80% of Custom Direct Inc. for aggregate gross proceeds of approximately \$150.0 million and to the repurchase of the remaining \$86.4 million of Notes and the write-off of the related unamortized deferred finance fees of \$1.7 million. The Company also undertook an extensive review of all businesses, comparing the book carrying value to the estimated fair market value of each operation. As a result, the Company recorded non-cash charges against specific assets of \$11.2 million and goodwill charges of \$10.0 million. In addition, the Company incurred stock-based compensation expense of \$5.5 million related to the expensing of employee stock options, the implementation of a stock appreciation rights plan for senior management and directors, and warrants issued to outside service providers.

In 2002, the gain of \$105.8 million related to the divestiture of the remaining interest in Davis + Henderson, A.E. McKenzie Co. Inc., The House of Questa Limited, Spectron Security Print Pty Ltd., Ashton-Potter Packaging and CyberSight Acquisition Co., Inc. for aggregate gross proceeds of approximately \$189.0 million and the repurchase of \$112.5 million of Notes at 89% of the original principal amount. Cash charges of \$5.1 million were incurred related to expenditures associated with the postponed income trust of Custom Direct, including costs incurred to settle a supply contract dispute.

Unrealized Foreign Exchange Gain

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In the first half of 2002, an unrealized foreign exchange gain of \$4.4 million was recorded with respect to the U.S. dollar denominated Notes. On July 1, 2002, the Notes were designated as a hedge against the foreign exchange exposure of the U.S. Secure Products International operations, and any foreign exchange translation adjustment of the Notes reduced the offsetting foreign exchange translation adjustment of the U.S. operations, which was reflected in the cumulative translation account within shareholders' equity until the sale of Custom Direct and repayment of the Notes in 2003. The 2003 foreign exchange loss relates to short-term intercompany denominated receivables held by Canadian operations in United States dollars.

Amortization

Amortization expense for the year was \$12.6 million, \$3.5 million lower than the amortization of \$16.1 million in 2002 primarily as a result of the reduction in the capital assets of Secure Products International. Amortization of the Marketing Communications Division was \$7.9 million compared to 2002, at \$7.6 million. This increase was primarily attributable to the capital assets associated with the expansion of customer service centres. Amortization attributable to Corporate and Other reduced from \$1.4 million to 0.9 million.

Interest, Net

For 2003, interest expense was \$11.5 million, down \$6.3 million compared with 2002. The decrease was due primarily to the reduction of interest in Secure Products International and Corporate and Other, due to the retirement of the Notes and the senior credit facility at head office. Interest expense related to the Marketing Communications Division increased \$1.0 million, primarily due to a higher weighted cost of borrowing and a higher average level of borrowings.

Income Participation of Minority Partners

Income participation of minority partners represents payments to minority shareholders of subsidiary companies pursuant to their respective shareholder agreements, and for the year was \$5.5 million, \$2.3 million higher than 2002 as a result of improved performance in the Marketing Communications Division.

Income before Income Taxes, Equity in Affiliates and Minority Interest

Income before income taxes, equity in affiliates and minority interest was \$10.8 million for 2003 compared to \$119.2 million in 2002. The improvement in Marketing Communications was more than offset by reductions in Secure Products International, primarily due to divestitures, and increased costs at Corporate and Other.

Income Tax Expense

Income tax expense recorded for the year was \$7.7 million compared with \$21.9 million last year. The effective tax rate for 2003 was 71.9% of income before taxes and minority interest. In 2002, the tax rate was 18.4% due primarily to the significant divestitures completed during that year.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. Income of \$1.9 million dollars was reported for the year ended December 31, 2003 related to equity earnings from CDI.

Minority Interest

Minority interest expense for 2003 was a recovery of \$1.0 million, compared with an expense of \$3.0 million in 2002, and represented the minority interest share of the net income (losses) of Maxxcom and Metaca for the period in which those operations were not wholly owned subsidiaries.

Net Income for the Year

Net income for the year was \$5.9 million versus \$94.3 million in 2002. The marginal improvement in net income of the Marketing Communications Division was

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offset by the impact of asset dispositions and a decrease in income attributable to the remaining business segments.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

At December 31, 2003, working capital was \$39.0 million compared with negative \$4.9 million at December 31, 2002. The \$43.9 million increase in working capital since last year was primarily the result of the sale of Custom Direct, Inc. and a \$22.9 million decrease in deferred acquisition consideration payable, net of a \$14.6 million increase in the current portion of long-term indebtedness. Accounts receivable increased by \$13.5 million, and accounts payable and deferred revenue increased by \$7.4 million and \$3.3 million, respectively.

It was determined that the Company possessed sufficient liquid funds to finance foreseeable requirements and hence management decided to cancel its \$25.0 million senior credit facility during the third quarter of 2003. At December 31, 2003, Maxxcom had utilized approximately \$30.7 million (C\$39.8 million) of its C\$51.1 million facility in the form of drawings and letters of credit. This facility will reduce by C\$7.0 million each quarter until maturity in March 2005.

Cash and undrawn available bank credit facilities to support the Company's future cash requirements, at the end of 2003, were approximately \$80.0 million.

Contractual Obligations

The following table summarizes the Company's contractual obligations at December 31, 2003:

| Contractual Obligations (in thousands of U.S. dollars) | Total | Payments Due by | | |
|--|-------------------|------------------|------------------|------------------|
| | | Less than 1 year | 1-3 years | 4- 5 years |
| Long-term indebtedness | \$ 113,544 | \$15,996 | \$ 66,112 | \$ 4,600 |
| Capital lease obligations | 7,214 | 2,650 | 3,361 | 549 |
| Operating leases | 59,514 | 12,097 | 18,603 | 12,190 |
| Deferred acquisition consideration | 1,113 | 1,113 | - | - |
| Total contractual obligations | \$ 181,385 | \$ 31,856 | \$ 88,076 | \$ 17,339 |

Long-term Indebtedness

Long-term indebtedness (including the current portion of long-term indebtedness) at December 31, 2003 was \$120.8 million, a reduction of \$38.8 million compared with the \$159.6 million outstanding at the end of last year, due primarily to the redemption of the Notes in the second quarter of 2003, partially offset by the adjustable rate exchangeable securities and new indebtedness incurred by Maxxcom to fund the payment of deferred acquisition consideration and certain capital expenditures. During the third quarter of 2003, \$0.9 million of long-term indebtedness was repaid including the repurchase of C\$1.0 million of the C\$50.0 million 7% convertible notes under a normal course issuer bid.

On December 1, 2003, the Company issued \$26.3 million of adjustable rate exchangeable securities due December 31, 2028. Based on the performance of Custom Direct Income Fund (the "Fund") for the period ended December 31, 2003, the Company was entitled to exchange its shares of Custom Direct, Inc. for units of the Fund. The units of the Fund were delivered by the Company, on February

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13, 2004, in full settlement of the adjustable rate exchangeable securities.

The following table summarizes the Company's exposure to interest and exchange rate risks by providing the amount of long-term indebtedness outstanding at December 31, 2003 in the currency in which it is denominated and the amounts that are subject to floating versus fixed rates of interest:

Long-term Indebtedness

| Interest | C \$ | US \$ | AUS \$ |
|----------|------------|------------|-----------|
| Fixed | 18,429,220 | 3,911,000 | 2,475,582 |
| Floating | 86,750,312 | 33,863,000 | - |

Deferred Acquisition Consideration

Acquisitions of businesses by the Company typically include commitments to contingent deferred purchase obligations ("Earnouts") and, in certain circumstances, commitments to purchase minority shareholdings ("Puts"). Earnouts were generally payable annually over a three-year period following the acquisition date and were payable based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. At December 31, 2003, approximately \$1.1 million of Earnouts related to prior-year acquisitions are reflected on the Company's balance sheet. This obligation is expected to be funded during 2004 through the use of operating funds.

The Company plans to reduce the use of Earnouts in future acquisitions.

Based on various assumptions as to future operating results of the existing relevant entities, including kirshenbaum bond + partners, acquired in January 2004, it is estimated that approximately \$0.8 million additional deferred purchase obligations would be earned during 2004 or thereafter.

Put Rights of Subsidiaries' Minority Shareholders Owners of interests in certain of the Marketing Communications subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise these rights is subject to the satisfaction of certain conditions, such as the provision of a period of notice in advance of exercising such right or the installation of successor management in the subsidiary, and in some cases is related to the employment status of the holder of the right. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the period 2004 to 2012. Except as described below, it is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable in the event such rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries, including kirshenbaum bond + partners, perform over the relevant future periods at their 2003 earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate of approximately \$70 million to the owners

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of such rights to acquire the remaining ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$12 million by the issuance of share capital.

The ultimate amount payable in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. The actual amounts paid will be different from these estimates, and these differences could be material.

If these rights were exercised in aggregate, the Company would acquire incremental ownership interests in the relevant Marketing Communications subsidiaries, entitling the Company to additional annual operating income before other charges, which is estimated, using the same earnings basis used to determine the aggregate purchase price noted above, to be approximately \$11 million. The actual amounts acquired will be different from this estimate and these differences could be material.

Of the estimated aggregate amount, approximately \$0.8 million relates to rights exercisable in 2004 associated with a subsidiary. A shareholder of this subsidiary has given one-year advance notice of their intent to exercise their right to require the Company to purchase a portion of their total respective interest in the related subsidiary. The Company has funded this obligation in the first quarter of 2004.

Long-term Indebtedness to Shareholders' Equity

At December 31, 2003, the Company's long-term indebtedness was \$120.8 million, and total shareholders' equity totaled \$116.2 million. The ratio of long-term indebtedness to shareholders' equity decreased from 1.65 at the end of 2002 to 1.04 at the end of 2003.

Repayment of Long-term Indebtedness

Approximately \$92.0 million of the long-term indebtedness outstanding at December 31, 2003 is due within the next five years; \$70.6 million or 77% of that amount relates to Maxxcom's credit facility, which matures in March 2005, and Maxxcom's subordinated debenture, due September 2005. Management anticipates that this indebtedness will be repaid with a new financing at the parent company and cash flow from operations.

Share Capital

At January 31, 2004, there were 18,519,218 Class A subordinate voting shares and 450,470 Class B shares outstanding. Each Class B share is convertible at the option of the holder into one Class A share.

Also outstanding at January 31, 2004 were 7% convertible debentures with a face value of C\$48.0 million. These debentures are convertible at the option of the holder into Class A shares at a rate of 49.261 Class A shares per one thousand Canadian dollars of debenture. The 7% convertible debentures are redeemable by the Company at par. The Company may, at its option, satisfy the obligation to repay the principal amount of the debentures on redemption or at maturity in freely tradable Class A shares.

Cash Flows

Cash flows from operations, before changes in non-cash working capital, for the year ended December 31, 2003 were \$18.7 million. This represents a decrease of \$4.7 million from the cash flow generated in 2002, reflective of the impact of lower revenues and operating income before other charges related to Secure Products International and Corporate and Other operations.

Cash flows from investing activities during the year were \$74.6 million compared with \$151.6 million in 2002. The net proceeds received from the sale of Custom Direct, net of investing activities, amounted to \$88.4 million. The \$18.4

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million of capital asset expenditures was primarily related to the development of customer service centres, additional investment in new premises and applications software by Marketing Communications, and the purchase of manufacturing equipment across Secure Products International. Cash flow from other assets of \$4.5 million primarily related to the repayment of employee loans.

Cash flows used in financing activities amounted to \$63.9 million and comprised new indebtedness of \$37.5 million, the repayment of \$90.8 million of long-term indebtedness, proceeds of \$3.0 million from the issuance of share capital through the exercise of options, and \$13.7 million used to repurchase and cancel shares of the Company.

Transactions with Related Parties

The Company incurred fees totaling \$8.0 million in 2003 and \$2.4 million in 2002 to companies controlled by an officer of the Company in respect of services provided including merger and acquisition, financial and administrative. In addition, the Company had a non-interest bearing note receivable at December 31, 2003 of \$2.3 million (C\$3.0 million), \$1.9 million at December 31, 2002, from another company controlled by the same officer.

RISKS AND UNCERTAINTIES

Economic Uncertainty

The marketing communications industry is cyclical and is subject to the effects of economic downturns. The Company is also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets. As a result, the Company's business, financial condition and operating results may be affected in a materially adverse manner.

Competition

Each of the Company's divisions operates in a highly competitive environment.

The Marketing Communications Division competes in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service, and expertise in particular niche areas of the marketplace. Although the price of services may be a competitive factor in obtaining new clients, it is generally of lesser importance once a client relationship has been established.

Additionally, there has been a trend of large multinational organizations consolidating their marketing communications providers so that one firm provides these services to all international locations. As a result, marketing communications providers may experience the loss of clients or projects. To the extent that the Company's Marketing Communications Division may lose business and is unsuccessful in replacing it, the Company's business, financial condition and operating results may be affected in a materially adverse manner.

Secure Products International competes primarily on the basis of quality, customer service, design capability and price. A number of the Company's competitors have greater resources than those available to the Company which may enable them to aggressively pursue the business of Secure Products International.

Customer Concentration

The strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. However, management succession is very important

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to the ongoing results of the Marketing Communications Division because, as in any service business, the success of the Company is dependent upon the leadership of key executives and management personnel. Accordingly, the top 10 clients of the Marketing Communications Division represent less than one-third of revenues; however, if key executives were to leave, the relationships they have with the clients could be lost. Management has attempted to mitigate the risks with respect to these successions through various employment contracts, shareholder agreements, and non-competition and non-solicitation agreements.

Within Secure Products International, the postage stamp business derives a significant portion of its revenues from government contracts. Contracts are generally awarded in a competitive bidding process. The loss of these contracts could have a material adverse effect on the sales and earnings of the division.

Risk of Media Account Default

The Marketing Communications Division of the Company incurs expenses on behalf of clients in order to secure a variety of media time and space for which it receives a fee. The difference between the gross cost of the media and the net revenue earned by the Company can be significant. While the Company takes many precautions against default on payment for these services (such as advance billing clients) and has historically had a very low incidence of default, it is still exposed to the risk of significant uncollectible receivables.

Currency Fluctuations

Although the Company's financial results are reported in U.S. dollars, a significant portion of its sales and operating costs are denominated in Canadian dollars. As a result, fluctuations in the exchange rate between the U.S. dollar and other currencies, particularly the Canadian dollar, may affect the Company's financial results and the Company's competitive position. The Company generally manages its exposure to foreign currency risks through foreign exchange contracts and currency swap agreements. There can be no assurance that such measures will be successful; however, management will attempt to mitigate these risks to the fullest extent available.

Access to Capital and Future Liquidity

In addition to internally generated funds, the Company relies upon access to credit facilities and other forms of financing for its business. The Company will therefore need to raise capital through the incurrence of additional long-term or shortterm indebtedness or the issuance of additional equity securities. Although the Company has been able to obtain such financing in the past, there is no assurance that the Company will be able to refinance current or future indebtedness on terms that are acceptable to the Company.

The incurrence of additional indebtedness may result in increased interest expense or decreased net income, and the issuance of additional equity securities could result in dilution of existing equity positions.

CHANGES IN ACCOUNTING POLICIES

Reporting Currency

Historically, the Company's consolidated financial statements have been presented in Canadian dollars. In order to more fully reflect the U.S. nature of the Company's business and shareholder base, and to improve investors' ability to compare the Company's results with those of most other publicly traded businesses in the marketing communications industry, which also report in U.S. dollars, the U.S. dollar was adopted as the Company's reporting currency effective September 30, 2003. The functional currencies of each of the Company's operations are unchanged. The consolidated financial statements and notes thereto have been restated in U.S. dollars for all periods presented.

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Stock-based Compensation

During the fourth quarter of 2003, the Company decided to adopt the fair value based method of accounting for all its stockbased compensation. The Company adopted these changes using the prospective application transitional alternative. Accordingly, the fair value based method is applied to awards granted, modified or settled on or after January 1, 2003. When the awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus when costs were charged against income or acquisition consideration.

NEW ACCOUNTING PRONOUNCEMENTS

Asset Retirement Obligations

The CICA has issued new recommendations for accounting for asset retirement obligations (CICA Handbook Section 3110), effective for the fiscal years beginning on or after January 1, 2004, with earlier adoption encouraged. The new section focuses on the recognition and measurement of liabilities for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The Company expects that the impact of this new accounting pronouncement will not be material to its financial position, results of operations, or cash flows.

Consolidation of Variable Interest Entities In June 2003, the AcSB issued new CICA AcG-15, Consolidation of Variable Interest Entities. This Guideline addresses the consolidation of variable interest entities, which are entities that have insufficient equity or their equity investors lack one or more of the specified essential characteristics of a controlling financial interest. AcG-15 also provides guidance for determining who should consolidate the variable interest entity. This Guideline is effective for the first interim and annual period beginning on or after November 1, 2004, with earlier application encouraged. The Company expects that the impact of this new accounting pronouncement will not be material to its financial position, results of operations, or cash flows.

Financial Instruments - Disclosure and Presentation In November 2003, the CICA issued an amendment to Section 3860, Financial Instruments - Disclosure and Presentation, that clarifies the difference between an equity and a liability instrument. Any security that may be settled in cash or in the equivalent value of shares must be classified as debt. The effective date of this amendment is January 1, 2005. To the extent the 7% convertible debentures remain outstanding on adoption, the balance in other paid-in capital, included in shareholders' equity, will be classified as debt. In addition, the charge to retained earnings will be eliminated with an increase to interest expense.

Outlook

Following the Company's 2001 strategic plan, in 2002, management focused its resources on the Company's core businesses and also capitalized on market opportunities to dispose of assets and reduce indebtedness. In 2003, management was able to further reduce indebtedness with proceeds from the sale of Custom Direct and solidify its Marketing Communications Division through the privatization of Maxxcom.

Revenues and operating profits of the Marketing Communications Division are expected to continue to grow in 2004 from organic growth and strategic acquisitions. 2004 has started strong with new client engagements earned by our exciting brands and the acquisition of 60% of kirshenbaum bond + partners. Secure Products International will continue to provide secure products to its clients. The Company's investment in the high-growth areas of the secure printing industry and the completion of the operational restructuring are expected to restore profitability and produce greater returns. Revenues and profits from existing operations are expected to increase in 2004 as the result

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of investment spending and ramp up of the USPS contract, while we explore other opportunities to diversify the client base and develop new applications for target markets.

Management is encouraged by the progress made over the past year and believes that the Company's core operations form a strong platform from which to grow its business in 2004 and beyond.

Forward-looking Statements

The Company and its representatives periodically make written and spoken forward-looking statements, including those contained in this Annual Report. By their nature, forward-looking statements are subject to risks and uncertainties that could result in actual performance being materially different from anticipated results. The Company cautions readers, when making decisions, to consider the risks and uncertainties of forward-looking statements.

Selected Consolidated Quarterly Financial Information (Restated - See Note 1)

| (in thousands of U.S. dollars, except per share amounts) | First Quarter Ended March 31 | | Second Quarter Ended June 30 | | Third Quarter Ended September 30 | | Fourth Quarter Ended |
|--|------------------------------|---------|------------------------------|---------|----------------------------------|---------|----------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2002 |
| Revenues | 85,023 | 120,479 | 80,617 | 91,212 | 66,659 | 87,323 | 72,6 |
| Net income (loss) for the period | 297 | 7,006 | 6,698 | 80,685 | 2,463 | 4,684 | (3, |
| Earnings (loss) per share | | | | | | | |
| Basic | \$ (0.00) | \$ 0.40 | \$ 0.38 | \$ 4.76 | \$ 0.12 | \$ 0.26 | \$ (0. |
| Diluted | \$ (0.00) | \$ 0.26 | \$ 0.29 | \$ 3.41 | \$ 0.11 | \$ 0.18 | \$ (0. |

A. Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within applicable time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding required disclosures.

On May 10, 2004, the Company disclosed in its annual report on Form 40-F for the fiscal year ended December 31, 2003 that an evaluation had been performed by the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, and that based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2003. Subsequently, management determined that the Company's disclosure controls and procedures were not effective as of December 31, 2003, because the Company had a "material weakness" that resulted in the improper reporting of certain items, as described in Note 1 to the consolidated financial statements included herein.

Prior to the filing date of this Form 40-F/A, the Company implemented revised control activities to support improved processes under the direction of our Vice

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Chairman & Executive Vice President. The revised control activities and improved processes include expanded supervisory activities and monitoring procedures, including the corrective actions described below. Based on these changes and improvements, management believes that as of the date of this filing, our disclosure controls and procedures are effective to ensure that material information relating to our Company, including our consolidated subsidiaries, is made known to our CEO and CFO by others within those entities. Furthermore, our management, including our CEO and CFO, believe such controls have improved in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. We currently are designing and implementing an improved control environment to address the deficiencies described below.

B. Internal Control over Financial Reporting

In the light of restatements of the Company's previously issued financial statements, as described in Note 1 of the Company's consolidated financial statements contained herein, the Company's management has concluded that there are significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Management believes that such deficiencies represent material weaknesses in internal control over financial reporting that, by themselves or in combination, result in a more than remote likelihood that a material misstatement in our financial statements will not be prevented or detected by our employees in the normal course of performing their assigned functions. Such material weaknesses in internal control over financial reporting existed as at December 31, 2003.

Under applicable rules, management may not conclude that the Company's internal control over financial reporting is effective if a material weakness exists. Given the nature of the restatements, the Company's management believes that its material weaknesses relate primarily to significant transactions at the Company's head office accounting and reporting functions, including the following:

- . insufficient personnel resources and technical accounting expertise within its accounting functions;
- . failure in the design and operating effectiveness of identified controls in preventing or detecting misstatements of accounting information;
- . absence of appropriate review of significant transactions and related accounting entries, and the appropriate documentation and application of U.S. GAAP for those significant transactions;
- . failure to document approvals required for certain transactions; and
- . inadequate procedures and oversight for appropriately assessing and applying accounting principles and changes thereon.

Our management and Audit Committee have dedicated resources to assist in assessing the underlying issues giving rise to the restatement and in ensuring proper steps have been and are being taken to improve our control environment. That assessment found and concluded that our finance and accounting personnel made a number of accounting errors, but that there was no evidence of any fraud, intentional misconduct or concealment on the part of the Company, its officers or its employees. We currently are designing and implementing improved controls to address the material weaknesses described above in our control environment. Specifically, the Company has taken the following corrective actions:

- . Hired additional personnel resources, and is actively pursuing appropriate

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additional resources in its accounting and finance functions, particularly those with US GAAP expertise;

- . Developed, distributed and begun to communicate and implement comprehensive accounting policies in a number of areas, including revenue recognition;
- . Developed and continues to refine procedures for ensuring appropriate documentation of complex transactions and application of accounting standards to ensure compliance with U.S. GAAP;
- . Improving procedures for reviewing underlying business agreements and analyzing, reviewing and documenting the support for management's accounting entries and significant transactions; and
- . Improving monitoring controls to ensure internal controls are operating effectively.

The Company believes that these steps should remediate the identified material weaknesses in control over financial reporting.

Section 404 Assessment

Section 404 of the Sarbanes-Oxley Act requires management's annual review and evaluation of our internal controls, and an attestation of the effectiveness of these controls by our independent registered public accountants beginning with our Form 10-K for the fiscal year ending on December 31, 2004. We have dedicated significant resources, including management time and effort, and incurred substantial costs in connection with our ongoing Section 404 assessment. We are currently documenting and testing our internal controls and evaluating necessary improvements for maintaining an effective control environment. The evaluation of our internal controls is being conducted under the direction of our senior management in consultation with independent third party consulting firm. In addition, the Company's management is regularly discussing the results of our testing and any proposed improvements to our control environment with the Audit Committee. Despite the dedication of significant resources for our Section 404 assessment, and the incurrence of significant costs, the Company has determined that a significant amount of work will be required to remediate the above-mentioned material weaknesses in its internal control over financial reporting. Accordingly, the Company expects that it is likely that it will have material weaknesses in internal control over financial reporting at year-end. However, based on significant work performed during the past several months, including the measures discussed above, management believes that there are no material inaccuracies or omissions of material fact in this Form 40-F/A. Management, to the best of its knowledge, also believes that the financial statements contained in this Form 40-F/A are fairly presented in all material respects. Despite the potential for a material weakness in the Company's internal controls at year-end, management further expects that its corrective measures and improved internal controls will enable the Company to file financial statements for the year ending December 31, 2004, in compliance with U.S. GAAP on a timely basis.

C. Notice of Pension Fund Blackout Period

The Registrant was not required by Rule 104 of Regulation BTR to send any notice to any of its directors or executive officers during the fiscal year ended December 31, 2003.

D. Audit Committee Financial Expert

The Registrant's board of directors has determined that Francois R. Roy, an individual serving on the audit committee of the Registrant's board of directors, is an audit committee financial expert, as that term is defined in General Instruction B(8)(a) of Form 40-F. The Registrant's board of directors has also determined that Francois R. Roy is independent, as that term is defined under the rules and regulations of the Nasdaq Stock Market, Inc.

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E. Code of Ethics

The Registrant has adopted a code of ethics that applies to its chief executive officer, chief financial officer and controller and its principal accounting officer. The code of ethics is filed herewith as Exhibit 14 hereto.

F. Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed by BDO Dunwoody LLP, the Registrant's principal accountant (the "Outside Auditors"), for the fiscal years ended December 31, 2002 and 2003 for professional services rendered by the Outside Auditors for the audit of the Registrant's annual financial statements or services that are normally provided by the Outside Auditors in connection with statutory and regulatory filings or engagements for such years were \$716,000 and \$671,000, respectively.

Audit-Related Fees

The aggregate fees billed by the Outside Auditors for the fiscal years ended December 31, 2002 and 2003 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Registrant's financial statements and are not reported above as audit fees were \$257,000 and \$62,000, respectively. Professional services provided included prospectus services on account of certain subsidiaries.

Tax Fees

The aggregate fees billed by the Outside Auditors for the fiscal years ended December 31, 2002 and 2003 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were \$2,500 for general tax advice.

All Other Fees

There were no fees billed by the Outside Auditors for the fiscal years ended December 31, 2002 and 2003 for products and services provided by the Outsider Auditors, other than the services reported in the preceding three paragraphs.

Audit Committee Pre-Approval Policies

All audit and non-audit services performed by the Registrant's auditor are pre-approved by the audit committee of the Registrant.

G. Off-Balance Sheet Arrangements

The Registrant is not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

H. Tabular Disclosure of Contractual Obligations

The following table sets out the Registrant's known contractual obligations for its long-term liabilities and lease commitments as of the fiscal year ended December 31, 2003.

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| Contractual Obligations (in thousands of U.S. dollars) | Payments due by period | | | | |
|---|------------------------|---------------------|------------------|------------------|------------------|
| | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | More 5 years |
| Long-term indebtedness | \$ 113,544 | \$ 15,996 | \$ 66,112 | \$ 4,600 | \$ 26,836 |
| Capital lease obligations | 7,214 | 2,650 | 3,361 | 549 | |
| Operating leases | 59,514 | 12,097 | 18,603 | 12,190 | 16,624 |
| Deferred acquisition consideration | 1,113 | 1,113 | - | - | |
| Total contractual obligations | \$ 181,385 | \$ 31,856 | \$ 88,076 | \$ 17,339 | \$ 44,459 |

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

The Registrant has previously filed with the Commission a Form F-X.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

MDC PARTNERS INC.

Dated: December 20, 2004

By: /s/ Walter Campbell

By: Walter Campbell
Title: Chief Financial Officer

EXHIBIT INDEX

| Number | Document |
|--------|--|
| 1. | Consent of BDO Dunwoody LLP |
| 14.* | Code of Ethics of MDC Partners Inc. |
| 31. | Certification of CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32. | Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Filed previously.