MAD CATZ INTERACTIVE, INC. 2002 ANNUAL REPORT

LEADING THE WAY

About Mad Catz Interactive, Inc.

A growing number of people of all ages are spending more and more of their leisure time gaming. A vibrant industry has emerged to provide these gamers with multiple platforms and sophisticated software. Accessories such as controllers, steering wheels and memory cards are an important category because they enhance the gaming experience, adding a new dimension of fun and creativity. Mad Catz is leading the way in designing, developing and distributing high quality, edgy and price competitive accessories that make video gaming a truly exciting experience.

Dear Shareholders

Fiscal year 2002 was an extremely satisfying year for Mad Catz — a year of record sales and performance. It was a year that saw unprecedented opportunities for expansion in the gaming industry and one in which we laid the foundation for our own future growth.

These opportunities fostered an environment for Mad Catz to lead the way with 65 new product introductions — the largest introduction in Mad Catz' history — a solidified and strengthened management team, enhanced global reach, and an emphasis on cost controls as key drivers for improvement of our operating efficiencies.

With the introduction of several new platforms — Microsoft's Xbox® and Nintendo's GameCube® and Game Boy Advance® — as well as the significant growth of the installed base of Sony's PlayStation 2®, we have entered a new era in the video gaming market, with significant opportunities and challenges the likes of which the industry has never seen. Mad Catz' brand-focused, multi-platform strategy has placed the company in a strong leadership position as we enter the most productive phase of the current industry cycle.

This year marked the first time that our strategic resources were focused solely on our Mad Catz business. As the video game peripherals business became increasingly vibrant with the introduction of new platforms during the year, our decision to focus on the Mad Catz business, as evidenced by our financial results, was a correct one.

We capitalized on the strength of the Mad Catz brand exemplified by the strategic decision to change our corporate name to Mad Catz Interactive, Inc. as well as our stock exchange symbol to MCZ in September 2001. We also moved our offices in San Diego to a larger facility to accommodate our expanding operations as well as established a London office giving us a foothold in Europe.

We devoted resources to deepening our existing retail relationships and nurtured new ones. Through a sustained program of category management, Mad Catz continues to place great emphasis on our retailer relationships.

Financial Results

For the fiscal year ended March 31, 2002, Mad Catz had record net sales

We have entered a new era in the video gaming market, with unprecedented opportunities for expansion.

Financial Highlights U.S. Dollars millions	**Fiscal 2002**	Fiscal 2001
Net sales	**$ 83.3**	$ 55.8
Gross profit	**$ 18.4**	$ 12.4
EBITDA	**$ 6.2**	$ 1.7
Net income (loss)	**$ 1.5**	$ (22.9)
Income (loss) per share	**$ 0.03**	$ (0.51)

Xbox 8MB Memory Card

MAD CATZ HAS SUCCESSFULLY LEVERAGED THE MAD CATZ BRAND ACROSS EACH OF THE PLATFORMS LAUNCHED THIS YEAR.

from continuing operations of $83.3 million as compared with $55.8 million last year, representing an increase of 49%. Gross profit for the year ended March 31, 2002 was $18.4 million as compared to $12.4 million last year. Net income for the year was $1.5 million as compared to a net loss of $22.9 million last year.

For the year ended March 31, 2002, selling, general and administrative expenses ("SG&A") from continuing operations was $12.2 million as compared to $10.7 million for the same period last year. Selling expenses as a percentage of net sales decreased to 8.7% as compared to 8.9% last year. Administrative expenses as a percentage of net sales decreased to 5.9% as compared to 10.3% last year.

EBITDA for the year ended March 31, 2002, was $6.2 million as compared to $1.7 million, a 314.1% increase, as compared to last year. Income before taxes and goodwill charges for the year ended March 31, 2002 was $4.0 million, as compared to a net loss of $0.6 million last year. Net income for the year was $1.5 million, or $0.03 per share, as compared to a net loss of $22.9 million, or a loss of $0.51 per share last year.

Our balance sheet is in the strongest shape ever. Inventory levels were kept in check despite additional inventory necessary for Game Boy Advance, Xbox and GameCube. At March 31, 2002, Mad Catz utilized only $4.3 million of its line of credit in the face of stronger sales.

PLATFORMS + PRODUCTS = PERFORMANCE

Mad Catz has assumed a leadership position in the peripherals market and has successfully leveraged the Mad Catz brand across each of the platforms introduced this year. Our strategy has been to introduce the highest quality products across all platforms at competitive prices.

Our major emphasis this year was the successful launch of our full line-up of products for Xbox and GameCube, complementing our existing line-up for PlayStation 2 and Game Boy Advance. We introduced a new generation of products including the innovative Lynx Control Pad Pro for PlayStation 2, which utilizes radio frequency technology comparable to high-end cordless telephones.

In October, we announced the launch of our full line-up of officially licensed and compatible third-party peripherals for the Xbox' video game console from Microsoft for North America, Europe and Japan. Under this license agreement Mad Catz branded products are officially endorsed by Microsoft and carry the Xbox license logo. At the same time, we launched a full line of products for Nintendo's GameCube. 65 products

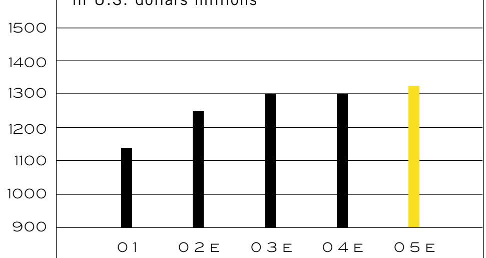
Game Boy Fliplight

were introduced to the market during the year. We have been highly successful in picking up more SKUs in both existing accounts as well as new customers.

According to NPD Funworld, a leading market information tracking company, PlayStation 2 sell-through remains robust, with an expanding U.S. installed base of approximately 8.1 million units, Game Boy Advance at 5.3 million units, while the Xbox installed base has expanded to approximately 1.7 million units. The installed base of GameCube was approximately 1.4 million units at the end of January 2002.

Also, according to NPD Funworld, adoption rates for PlayStation 2 have far outpaced those of PlayStation. In the 17 months following PlayStation 2's launch, adoption rates are equal to those 36 months following the launch of PlayStation and adoption rates for Xbox and GameCube are significantly higher than those of PlayStation 2 for the same post-launch period.

U.S Accessories Market 2001-2005E
in U.S. dollars millions



Source: 2001 figures based on NPD TRSTS;
2002 and forward projections from International Development Group

Once again the Company had a strong presence at the Electronic Entertainment Expo (E3), the industry's most important trade show, where the Company previewed its fall line up of new products, most of which are already in the later stage of development, including the new wireless controller for Xbox, utilizing the same innovative Lynx radio frequency technology used in the PlayStation 2 version.

Also introduced at E3 was the "Beat Pad" controller for Playstation 2, compatible with THQ Inc.'s Britney's Dance Beat™, a digital controller for dance and action games, featuring four-way directional control, ten large high-performance action pads and a durable tactile surface for enhanced comfort and improved handling. It is the most superior dance and action pad on the market today.

Continued and Sustained Growth

While our license agreement with Sony Computer Entertainment America for the memory card for PlayStation 2 in North America expired at the end of December 2001, that loss was more than offset by the increase in sales of new products for all the new platforms as well as PlayStation 2. We expect the sales momentum to continue in fiscal 2003 and we are estimating sales to grow substantially.

Control Pad Pro for GameCube

2003 STANDS TO BE THE YEAR WHERE THE RESULTS OF ALL OF OUR HARD WORK BEGINS TO BE FULLY REALIZED.

The continued success of current accounts, as well as the increase in new business both in the U.S. and abroad, is expected to enhance Mad Catz' growth. We will continue to utilize category management strategies, such as inventory and display management and pricing controls, to broaden our relationships with our retailers.

In fiscal 2002, we established operations in London and signed an agreement with PDQ Distribution Limited to provide logistic distribution services for our products in the U.K. We will remain focused on the European market and will continue to implement our business strategy aimed at building market share and duplicating the Company's success in the U.S. from new console introductions.

As we gain further momentum through fiscal year 2003, we will place greater emphasis on cost controls and operating efficiencies as key drivers for earnings improvement. Our strategic focus is to realize a reduction in product costs while maintaining product quality and service to our retailers.

As we stated last year, fiscal year 2002 was slated to be a defining year for the peripherals business — one in which Mad Catz' realized its objectives of increasing market share, building its product line-up of innovative peripherals for all consoles, reducing manufacturing and component costs and generating increased institutional investor awareness of the company. If 2002 was a year of transition for our Company and the industry as a whole, 2003 stands to be the year where the results of all of our hard work begins to be fully realized.

Sincerely,

Patrick Brigham

PAT BRIGHAM

CHAIRMAN

Morris Perlis

MORRIS PERLIS

PRESIDENT & CHIEF EXECUTIVE OFFICER

JUNE 12, 2002

Mad Catz: A Year in Review

GameCube Memory Cards

Leading the Way

Last year the video game industry entered a period of explosive growth, providing unprecedented opportunities for Mad Catz' expansion. It was then that we outlined several strategic objectives for meeting the challenges posed by this exciting new environment. These objectives were to increase Mad Catz' overall market share; introduce high quality products across a spectrum of price points; and improve operating margins through cost reductions.

In order to achieve these objectives and assume our current leadership position in the gaming peripherals market, Mad Catz needed to focus its resources behind the Mad Catz brand, put in place the best sales and management teams, introduce the highest quality products in a timely and cost-effective manner, and foster deeper relationships with our existing retailers, as well as new ones.

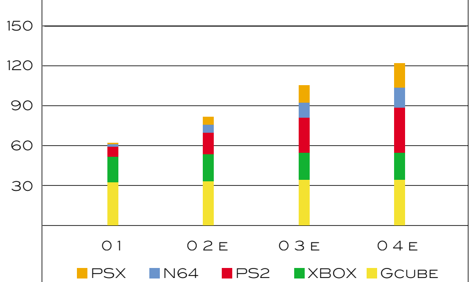
In the last thirteen months, four consoles have been introduced to the market: Sony's PlayStation 2, Microsoft's Xbox, and Nintendo's GameCube and Game Boy Advance. Mad Catz simultaneously introduced full product lines to coincide with each console introduction, enabling our customers to offer consumers the best accessories to complement their consoles.

These new consoles are the most sophisticated ever, and for PlayStation 2 and Xbox represent a convergence of entertainment systems for the home. As a result, these new platforms have a broader appeal to a changing demographic of the playing public. As original gamers enter their 30s and 40s we now have a more affluent consumer.

As we enter the cycle characterized by the expanding installed base, we continue to improve all aspects of our operations to capture greater market share.

Mad Catz continues to stress the importance of innovation using design and technology to develop superior products. Products introduced during the year, such as the Lynx Wireless Control Pad Pro for PS2, the highest performing wireless controller to come to market, utilizing radio frequency (RF) technology, demonstrate

Projected Growth of Installed Base in millions of units



At this years E3 trade show, Mad Catz' products were extremely well received by retailers.

Control Pad Pro for Xbox

"Team Mad Catz Orange" competes for enthusiasts and spectators who are the same demographic as the users of Mad Catz products.

Mad Catz' leadership position in bringing innovative and highly styled products to market. Additionally, the MicroCON controllers for PlayStation 2, Xbox and GameCube, shown at the recent Electronics Entertainment Expo (E3), which are smaller versions of Mad Catz' standard controllers, created to accommodate gamers who favor a more compact controller as well as the Dual Force 2 Skin Controller, which allows players to customize their controller by changing the design skins on the controller featuring lifestyle, sports and artwork underline Mad Catz' commitment to innovation.

Brand Focus

Fiscal 2002 was a building year for the industry as well as for Mad Catz and we made significant investments in many areas of our operations. While the Mad Catz name resonates with hard-core gamers as one that represents fun, active and edgy products, our objective in building the brand is to create greater awareness among a larger group of consumers as the demographic expands.

Mad Catz has taken several steps to convey a consistent brand-look through all its communications, especially its product packaging. In the battle for consumers' mind-share — as well as the share of their dollar — no place is as important as the point-of-purchase in the retail store. The objective of creating the new packaging was to help our products stand out amid the retail clutter. The new packaging helps facilitate the purchase decision because the vibrant colors make the products easy to find, features and benefits are clearly defined, and packaging illustrates product usage. The packaging is color coded for each platform making it easy for the consumer to make a selection.

Once again, Mad Catz' strong brand was on display at E3, where the Company showcases the breadth of its current product line up and introduces the new line to the buyers and the media. This year Mad Catz' booth introduced the theme "Controllers to the People", which emphasized Mad Catz' value proposition. The booth also featured the full breadth of products at varying price points that appeal to all gamers. This theme will be incorporated into our marketing activities during the coming year.

Mad Catz displayed its fall line-up of accessories for all platforms and introduced 23 products, including its new lower cost Lynx wireless controller pads designed for PlayStation 2 and Xbox, utilizing the same technology as the Lynx Control Pad Pro. Now Xbox and PlayStation 2 gamers can maximize playing time utilizing radio frequency technology comparable to high-end cordless phones. These products will be introduced into the market over the next few months.

During the year, the Company also launched a new corporate website. The improved site supports Mad Catz' busi-

Mad Catz Beat Pad

ness marketing efforts by interactively leading visitors to enhanced product and corporate information. Visitors to the site now find detailed product information; current and historical financial information; comprehensive investor information; an enhanced press information section which includes downloadable product photos; as well as a password protected secure section for retailers, designers and developers.

Mad Catz also successfully pursued several corporate sponsorship opportunities during the year including its sponsorship of 'Team Mad Catz Orange,' a professional mountain biking team, for the 2002-racing season. The demographic of the people who participate in these events is similar to those who play video games, therefore sponsorship was a natural fit for us. Team Mad Catz Orange has and will continue to wear the Mad Catz' logo on the front and back of the team's jerseys and will continue to compete throughout the year at races around the world. Additionally, the Company was a supporting sponsor of the 10th annual H2O Winter Classic, a weekend of surfing and snowboarding competitions which attracted a target audience of extreme sports fans. Mad Catz products were demonstrated at each of these events, which received extensive media coverage including national broadcast attention.

Retail Penetration

Mad Catz launched the largest number of peripherals in the Company's history, 65 products across all consoles, were introduced this year. The Company's products are widely available in the market at major retailers including specialty store chains and mass merchant/ discount stores in the U.S., Canada, U.K., Europe, South America, Asia and Australia.

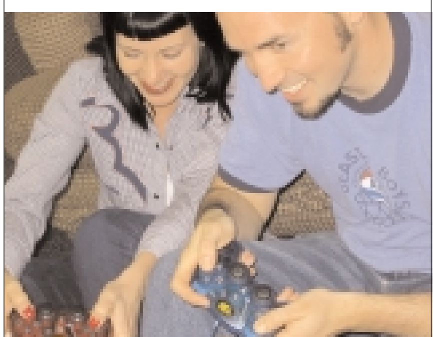
A key focus for Mad Catz was increased penetration of new products into the Company's existing customer base as well as successfully gaining new retail partners. Mad Catz products are now placed in 9 of the top 10 U.S. retailers.

In January we opened our London office, helping the Company realize one of its goals announced last year, increasing our penetration in the European market. European sales are projected to grow significantly over the next year with the recent console introductions.

The new sales office has established a channel for direct sales to the United Kingdom and, in time, other European markets. The Company also signed an agreement with PDQ Distribution Limited, the U.K.'s leading video game logistics specialist, providing fulfillment and distribution services to some of the leading names in the indus-

THE MAD CATZ NAME RESONATES WITH HARD-CORE GAMERS REPRESENTING FUN, ACTIVE AND EDGY PRODUCTS.

Universal MC2 Racing Wheel



Mad Catz creates the industry's highest quality products at competitive prices which appeal to the most sophisticated gamers.

try. Having PDQ as a logistics partner in the U.K. provides Mad Catz with the necessary support for its direct sales efforts and ensures that the Company is able to fulfill retailer's purchase orders in the most timely and cost effective manner. In a short time we have become a leading accessories company in the U.K. with SKU placements in most U.K. retailers.

Mad Catz' category management program for its customers assists retailers in targeting consumers more effectively. We work closely with them to create customized solutions that manage inventory levels, deliver the correct product on time, and create the most attractive in-store product displays, and in turn, develop close working relationships with our retailers.

Mad Catz has also devoted resources to supply chain management and identified areas across our entire manufacturing and marketing process where we can reduce costs and increase efficiencies. Specifically, we have engineered costs out of the manufacturing process without impacting product quality, enhanced our packaging to be more attractive and more cost effective, and instituted an active program of improving operating efficiencies specifically in the areas of design, factory effectiveness, quality control, order fulfillment and shipping.

We continue to outsource our product manufacturing to 11 facilities in China, which produce reliable, high quality products in the most cost-efficient manner. Our China-based engineers work proactively with the factory on processes to ensure that our high quality standards are met.

Looking ahead through 2003 and beyond, Mad Catz has clearly set a strong foundation to build upon the momentum of the industry and is strongly positioned to lead the way as the current industry cycle hits full stride.

Blaster for Xbox

Management's Discussion and Analysis

This management's discussion and analysis should be read in conjunction with the Message to Our Shareholders, operations review, and the Company's Consolidated Financial Statements and related notes. All financial information is in United States dollars unless otherwise noted.

This discussion and analysis contains forward-looking statements that involve a number of risks and uncertainties. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are market and general economic conditions and the risk factors from time to time in the Company's periodic reports and registration statements filed with the Securities and Exchange Commission.

Profile

Mad Catz Interactive Inc. ("Mad Catz" or the "Company") is a holding company with a primary focus on the Mad Catz Inc. ("MCI"), Mad Catz Canada Inc. ("MCC"), and Mad Catz Europe Ltd. ("MCE") video game accessory businesses. Mad Catz, with it's operational headquarters in San Diego, California, is a supplier of video game accessories for Nintendo, Sega, Sony, Microsoft and PC game systems. Mad Catz products are sold in over 12,000 retail stores in North America. Mad Catz products are also well represented internationally with sales to Europe, South America, Canada, Australia, and New Zealand. The Company's stock is traded on the Toronto Stock Exchange and the American Stock Exchange.

Significant developments during fiscal 2002

A decision was made by the Mad Catz board of directors to set forth a plan in the fourth quarter of fiscal 2001 to sell or discontinue the Games Trader ("GTI") (previously played video game) and ZapYou (internet distribution) businesses in order to focus on the Mad Catz business. By October 1, 2001, all assets of the Games Trader and ZapYou businesses had been disposed of.

Financial results for fiscal 2001 and 2002 recognize Games Trader and ZapYou as discontinued operations.

In July 2001, subordinated debt in the amount of $3.4 million was converted to 4,247,478 shares of Company common stock.

In first quarter 2002, Mad Catz launched a full line of accessories to support the new Nintendo Game Boy Advance product. In third quarter 2002, Mad Catz launched a full line of accessories to support the Microsoft X-box and Nintendo GameCube consoles.

On December 31, 2001, the Sony North American license for the Playstation 2 memory card expired and is not expected to be renewed. The Sony Europe license for the Playstation 2 memory card is still in effect and expires in November 2002.

In fourth quarter 2002, Mad Catz opened a business office in the United Kingdom (Mad Catz Europe Ltd.) to support the European launch of Microsoft X-box and Nintendo GameCube.

Results of Operations

Summary Statement of Operations

Years ended March 31
In millions of dollars, except per share amounts

Results of Continuing Operations	**Fiscal 2002**	Fiscal 2001
Net Sales	**$83.3**	$ 55.8
Gross profit	**18.4**	12.4
Operating expenses	**12.2**	10.7
EBITDA	**6.2**	1.7
Foreign exchange (gain) loss/ other income	**(0.1)**	0.2
Interest expense	**1.2**	1.4
Amortization	**2.0**	1.7
Income tax expense	**1.9**	3.1
Net income (loss) from continuing operations	**1.2**	(4.7)
Net income (loss) from discontinued operations	**0.3**	(18.2)
Net income (loss)	**1.5**	(22.9)
Income (loss) per share before goodwill charges and discontinued operations	**$0.04**	$(0.08)
Income (loss) per share on discontinued operations	**0.01**	(0.40)
Loss per share on goodwill charges	**(0.02)**	(0.02)
Income (loss) per share	**0.03**	(0.51)
Diluted income (loss) per share	**0.03**	(0.51)

Earnings before interest, tax, depreciation and amortization (EBITDA) is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Company's method of calculating EBITDA may differ from other companies and, accordingly, the Company's EBITDA may not be comparable to measures used by other companies.

Continuing Operations

Sales

Net sales from continuing operations increased to $83.3 million as compared with $55.8 million for the same period last year. Mad Catz North American sales, which accounted for 88% of total sales, increased 58%, driven by increased market penetration of Playstation 2 products and the launch of the X-box, GameCube and Game Boy Advance product lines. International sales were $10.1 million for fiscal 2002 as compared to $9.5 million in fiscal 2001. The seasonality of the sales cycle was as expected with 45% of sales occurring in third quarter. The top selling product group for fiscal 2002 was Playstation 2 representing 43% of total sales as compared to 31% in fiscal 2001, benefiting from the significant increase in the embedded base of Sony Playstation 2 consoles. The top selling product for fiscal 2002 was the Playstation 2 memory card representing 30% of total sales as compared to 20% of sales in fiscal 2001. On December 31, 2001, the Sony North American license for the Playstation 2 memory card expired. The Sony Europe license for the Playstation 2 memory card, which represents 8% of total sales in 2002 and 6% of sales in 2001, is still in effect and expires in November of 2002.

Gross profit

Gross profit is defined as net sales less factory product costs, cost of royalties, cost of freight-in and freight out and costs of the distribution centre.

Gross profit from continuing operations was $18.4 million as compared to $12.4 million last year. Gross profit as a percentage of net sales was 22.1% for fiscal 2002 as compared to 22.3% in fiscal 2001. Gross profit for fiscal 2002 was negatively affected by the X-box product launch. New product development costs at the factories combined with expediting costs reduced margins. Gross profit derived from the Playstation 2 and Game Boy products helped offset the X-box product margins.

Operating expenses

Operating expenses include selling, marketing, engineering and administrative expenses of the MCI, MCC and MCE businesses, as well as the corporate operating expense associated with Mad Catz.

Total operating expenses were $12.2 million in fiscal 2002 as compared to $10.7 million in fiscal 2001. The primary driver for the increased operating expenses are selling costs attributable to the 49% increase in sales. Selling expenses increased to $7.3 million as compared to $5.0 million in fiscal 2001. Variable selling expenses including marketing co-op and commissions to outside sales representatives increased in line with sales. Selling expenses as a percentage of sales decreased to 8.7% in fiscal 2002 from 8.9% in fiscal 2001. Total administrative expenses decreased to $4.9 million in fiscal 2002 from $5.7 million in fiscal 2001.

Corporate operating expense for Mad Catz was $0.8 million in fiscal 2002 compared with $2.2 million in fiscal 2001. A reduction in professional and legal fees, salaries, and severance costs was responsible for the favorable variance.

Earnings before interest, taxes, amortization and other items

EBITDA for the Company's continuing operations was $6.2 million as compared to $1.7 million for the previous year. The increase in EBITDA is attributed to the gross profit generated by the 49% increase in sales and the reduction in administrative expenses.

Interest expense

Interest expense from continuing operations was $1.2 million in fiscal 2002 as compared to $1.4 million for the previous year. Interest applicable to the asset-based operating line of credit was $1.0 million for fiscal 2002 compared with $1.0 million in fiscal 2001. Interest applicable to the subordinated debt was $0.2 million in fiscal 2002 compared with $0.4 million in fiscal 2001. Fiscal 2002 and 2001 included 6 months of interest attributed to the subordinated debt. During fiscal 2001, a portion of the subordinated debt was repaid resulting in lower monthly interest payments in fiscal 2002. The subordinated debt was converted to equity in July of fiscal 2002.

Amortization

Amortization of capital assets and goodwill charges associated with the purchase of Mad Catz Inc. was $2.0 million in fiscal 2002 as compared to $1.7 million for fiscal 2001. Depreciation attributed to fixed assets was $1.0 million for fiscal 2002 compared to $0.7 million in fiscal 2001. Primary asset acquisitions in fiscal 2002 are moulds used in production of accessories associated with the Nintendo Game Boy Advance, Microsoft X-box and the Nintendo GameCube product launches.

Income tax expense

Income tax expense was $1.9 million for the year as compared to $3.1 million for fiscal 2001. Fiscal year 2001 income tax expense included a $1.6 million one-time write-off of a future tax asset related to the parent company Mad Catz.

Net income (loss) and income (loss) per share

Net income from continuing operations was $1.2 million as compared to a net loss of $4.7 million in fiscal 2001. Net income per share for Mad Catz in fiscal 2002 was $0.03 as compared to a net loss per share of $0.51 in fiscal 2001. Income (loss) per share is calculated on the basis of the weighted average number of basic shares outstanding during the year of 51,188,889 compared to 45,297,305 in the previous year.

Net gain (loss) from discontinued operations

In March 2001, the Company's Board of Directors adopted a formal plan to dispose of the assets and business operations of its Games Trader and ZapYou business units.

By October 2001, all of the assets of the Games Trader and ZapYou businesses had been disposed of. Provisions for outstanding liabilities related to the discontinuing operations have been updated to provide for the expected future liabilities of the Games Trader and ZapYou businesses. The net result of the disposal of assets and revaluation of liabilities has led to a gain on discontinued operations of $0.3 million for the year. The loss from discontinued operations for fiscal 2001 was $18.2 million. The 2001 loss from discontinued operations includes charges of $1.0 million for costs to exit the Games Trader and ZapYou businesses. The loss also includes $12.9 million in write-downs of assets to their net realizable value as related to the disposition of the business units (inventories $2.7 million, capital assets $2.1 million, goodwill and intangibles $2.2 million, future tax asset $3.9 million, and accounts receivable $2.0 million). The balance of the $18.2 million loss is attributed to operating losses associated with the Games Trader and ZapYou fiscal 2001 operations.

Income per share for discontinued operations in fiscal 2002 was $0.01 as compared to a loss of $0.40 in the prior year.

Summary consolidated statements of cash flow

Years ended March 31

In millions of dollars, except per share amounts	**Fiscal 2002**	Fiscal 2001
Cash provided by continuing operating activities	**$5.3**	$9.6
Cash provided by (used in) financing activities	**(4.0)**	1.5
Cash used in investing activities	**(1.1)**	(1.2)
Cash provided by (used in) discontinued operations	**0.3**	(8.5)
Net increase in cash	**$0.5**	$1.4

Liquidity and capital resources

Mad Catz continuing operations generated $5.3 million in cash in fiscal 2002 from continuing operating activities compared to cash generated of $9.6 million in fiscal 2001. During fiscal 2002, the Company invested in inventories for the new Game Boy Advance, X-box and GameCube product lines. The offset to the inventory investment was an increase in accounts payable. In addition, accounts receivable have increased in line with the approximate 49% increase in sales.

Cash used by financing activities was $4.0 million in fiscal 2002 as compared to cash generated of $1.5 million in fiscal 2001. Cash used by financing activities in fiscal 2002 was to repay the bank loan.

Total cash used in fiscal 2002 investing activities of $1.1 million and cash used in fiscal 2001 investing activities of $1.2 million was for the acquisition of capital assets.

Discontinued operations generated $0.3 million in cash in fiscal 2002 due to the revaluation of outstanding liabilities as compared with cash used of $8.5 million the previous year.

The net cash generated for fiscal 2002 for both continuing and discontinued operations was $0.5 million as compared to cash generated of $1.4 million in fiscal 2001.

The Company's working capital needs are provided by internally generated cash flow and an operating credit facility with an asset-based lender. The current operating credit facility has a maximum availability of $35 million, however access to this line of credit is based on eligible collateral (accounts receivable and inventory) which changes throughout the year. During fiscal 2002 the maximum amount borrowed against the line of credit was $16.0 million. At March 31, 2002 the outstanding loan was $4.3 million with additional excess loan availability of $3.3 million. In addition, the Company must meet a tangible net worth covenant to access the line of credit. As at March 31, 2002, the Company was in compliance with this loan covenant.

Balance sheet

As of March 31, 2002, the Company's consolidated balance sheet had assets of $50.2 million as compared with $45.7 million the previous year. Shareholders equity was $29.6 million as compared with $24.7 million the previous year. The increase in assets in fiscal 2002 was due to the increased working capital needs to support the new Game Boy Advance, X-box and GameCube product lines as well as the overall increase in sales. The fiscal year 2002 increase in shareholders equity is primarily due to the conversion of subordinated debt to equity which did not provide additional cash to the company.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended March 31, 2002 and 2001. Fiscal year 2001 results have been restated to take into account discontinued operations accounting.

Fiscal 2002

In millions of dollars, except per share amounts	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	**$ 14.0**	**$ 15.7**	**$37.8**	**$ 15.8**
Net Income/(loss) from continuing operations	**(0.3)**	**0.3**	**1.4**	**(0.2)**
Net Income/(loss) from continuing operations per share	**(0.01)**	**0.01**	**0.03**	**(0.01)**
Net Income/(loss)	**(0.3)**	**0.3**	**1.4**	**0.1**
Net Income/(loss) per share	**$(0.01)**	**$ 0.01**	**$0.03**	**$ 0.00**

Fiscal 2001

In millions of dollars, except per share amounts	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales	$ 5.3	$ 10.4	$33.0	$ 7.1
Net Income/(loss) from continuing operations	(0.7)	(0.6)	1.3	(4.7)
Net Income/(loss) from continuing operations per share	(0.02)	(0.01)	0.03	(0.11)
Net Income/(loss)	(1.9)	(1.8)	0.9	(20.0)
Net Income/(loss) per share	$(0.05)	$(0.04)	$0.02	$(0.42)

Risk and risk management

Technology

The markets for the Company's products are characterized by rapid technological advances, evolving industry standards and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards could render the Company's existing inventory of products obsolete and unmarketable. The Company's future success will depend upon its ability to enhance its current inventory of products and to introduce new products that keep pace with technological developments, respond to evolving end-users requirements and achieve market acceptance.

Infringement of Third Parties' Rights

Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims will not be asserted against the Company, or that any such claims will not materially adversely affect the business, financial condition, or results of operations. Irrespective of their validity or success, such claims may result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company.

Risks Associated with Product Returns: Price Protection

Consistent with industry practice, the Company allows retailers and end users to return defective products for credits toward the purchase of additional products. Competitors' promotional or other activities could cause price protection of existing customer inventories at any time. Further, the Company expects that the rate of product returns could increase above historical levels to the extent that the Company introduces new versions. Although the Company provides allowances for anticipated returns, exchanges and price protection obligations, and believes its existing policies have resulted in the establishment of allowances that are adequate, there can be no assurance that such product return, exchange and price protection obligations will not exceed such allowances in the future and as a result will not have a material adverse effect on future operating results. This is particularly true since the Company seeks to continually introduce new and enhanced products and is likely to face increasing price competition.

Customer Concentration

During fiscal 2002, the Company sold a total of 48% of its products to two customers (2001 – 43% to two customers). The loss of, or a significant decline in the sales to these customers could have a material adverse effect on the Company's business and prospects.

Product Concentration

The Company has significant revenues from a handful of products. The introduction of new products and product enhancements by the Company or it's competitors, changes in pricing policies by the Company or it's competitors and general economic conditions may have a material adverse effect on the Company's revenues.

Ongoing Margin Pressure

The Company operates in a highly competitive environment and may be forced to lower the prices for it's products at any time to remain competitive.

Offshore Manufacturing Risk

The Company uses Asian contract manufacturers. These may be affected at any time by the political instability and potential trade restriction risk in Asia.

Recently Issued Accounting Standards

In August 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1581, "Business Combinations" ("Section 1581") and Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). Section 1581 requires that the purchase method of accounting be used for all business combinations. Section 1581 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. Section 3062 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Section 3062. Section 3062 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment by assessing the recoverability of the carrying value.

The Company adopted the provisions of Section 1581 as of July 1, 2001, and Section 3062 is effective April 1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before Section 3062 is adopted, are not amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continue to be amortized and tested for impairment on a recoverability basis, using the same impairment tests as those applied to previously recognized goodwill and intangible assets, prior to the adoption of Section 3062.

Upon adoption of Section 3062, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in Section 1581.

In connection with Section 3062's transitional goodwill impairment evaluation, Section 3062 requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of April 1, 2002. The Company will then have up to six months from April 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with Section 1581. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as a prior period adjustment to opening retained earnings at April 1, 2002.

As of the date of adoption of Section 3062, the Company expects to have unamortized goodwill in the amount of $16.4 million, all of which will be subject to the transition provisions of Section 3062. Amortization expense related to goodwill was $1.0 million for each of the years ended March 31, 2002 and 2001. Because of the extensive effort needed to comply with adopting Sections 1581 and 3062, it is not practicable to reasonably estimate the impact of adopting the sections on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as a cumulative effect of a change in accounting principles and will be charged to opening retained earnings as at April 1, 2002.

In November 2001, the CICA amended Handbook Section 1650, "Foreign Currency Translation" ("Section 1650") and issued Accounting Guideline 13, "Hedging Relationships" ("AcG 13"). The revision to Section 1650 will eliminate the deferral and amortization of foreign currency translation differences resulting from the translation of long-term monetary assets and liabilities denominated in foreign currencies. All such translation differences will be charged directly to income. Section 1650 will be in effect as of April 1, 2002.

In December 2001, Handbook Section 3870, Stock–based Compensation and Other Stock-based Payments ("Section 3870") was issued. Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which shares of common stock, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments.

Section 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions. Section 3870 must be applied to: all stock-based payments to non-employees, and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy that no compensation cost is recorded on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Section 3870, however, does require additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options.

Section 3870 will be applied prospectively to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after April 1, 2002, except grants outstanding at April 1, 2002 that call for settlement in cash or other assets or stock appreciation rights that call for settlement in equity instruments. For such grants, the new recommendations are applied retroactively, without restatement.
The Company does not believe that the adoption of these standards will have a material impact on the Company's financial condition or results of operations.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Mad Catz Interactive Inc. and all the information in this annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The financial statements include some amounts that are based on best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and ensured it is consistent with that in the consolidated financial statements. The Company maintains a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is reliable, relevant and accurate, and that the Company's assets are appropriately accounted for and adequately safeguarded. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, but is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and is comprised of a majority of independent Directors. The Audit Committee meets periodically with management, as well as the external auditors, to review the company's reported financial performance and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Morris Perlis

MORRIS PERLIS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Andrew C Schmidt

ANDY SCHMIDT
CHIEF FINANCIAL OFFICER

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Mad Catz Interactive, Inc. (formerly GTR Group Inc.) as at March 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for 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 Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the two-year period ended March 31, 2002 and shareholders' equity as at March 31, 2002 and 2001 to the extent summarized in note 14 to the consolidated financial statements.

KPMG LLP

San Diego, California
May 29, 2002

Consolidated Balance Sheets

Expressed in U.S. dollars March 31,	**2002**	2001
Assets		
Current assets:		
Cash	**$ 1,902,966**	$ 1,455,480
Accounts receivable	**10,276,547**	6,810,779
Inventories (note 3)	**15,918,898**	13,493,306
Prepaid expenses and deposits	**634,886**	658,373
Future tax assets (note 9)	**2,070,835**	2,484,398
Income taxes receivable	**267,495**	178,235
	31,071,627	25,080,571
Deferred financing fees	**841,817**	1,324,992
Capital assets (note 4)	**1,919,749**	1,733,516
Goodwill (note 5)	**16,362,175**	17,529,191
	$ 50,195,368	$ 45,668,270
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loans (note 6)	**$ 4,335,084**	$ 8,670,796
Accounts payable and accrued liabilities	**16,106,044**	8,562,687
Subordinated debt (note 7)	**—**	3,338,719
	20,441,128	20,572,202
Future tax liabilities (note 9)	**136,886**	407,182
Shareholders' equity:		
Capital stock (note 8)	**45,554,910**	41,823,042
Cumulative translation adjustment	**391,138**	681,309
Deficit	**(16,328,694)**	(17,815,465)
	29,617,354	24,688,886
Commitments and contingencies (note 12)		
	$ 50,195,368	$ 45,668,270

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Don Lenz
Director

Cary McWhinnie
Director

Consolidated Statements of Operations and Deficit

Expressed in U.S. dollars Years ended March 31,	2002	2001
Net sales	$ 83,337,134	$ 55,781,630
Cost of sales	64,927,895	43,367,087
Gross profit	18,409,239	12,414,543
Expenses (income):		
Selling	7,276,113	4,955,479
Administrative	4,934,693	5,722,279
Interest	985,342	1,064,195
Interest on bank term loan	—	4,051
Interest on subordinated debt	246,781	390,771
Amortization	1,009,936	717,889
Foreign exchange (gain) loss	(60,511)	191,667
	14,392,354	13,046,331
Income (loss) before income taxes and goodwill charges	4,016,885	(631,788)
Income taxes (note 9)	1,855,544	3,069,331
Income (loss) before goodwill charges and discontinued operations	2,161,341	(3,701,119)
Goodwill charges	976,665	950,695
Income (loss) from continuing operations	1,184,676	(4,651,814)
Income (loss) from discontinued operations (note 2)	302,095	(18,256,392)
Net income (loss)	1,486,771	(22,908,206)
Retained (deficit) earnings, beginning of year	(17,815,465)	5,092,741
Deficit, end of year	$ (16,328,694)	$ (17,815,465)
Income (loss) per share before goodwill charges and discontinued operations	$ 0.04	$ (0.08)
Income (loss) per share on discontinued operations	0.01	(0.40)
Loss per share on goodwill charges	(0.02)	(0.02)
Net income (loss) per share (note 11)	$ 0.03	$ (0.51)
Diluted net income (loss) per share (note 11)	$ 0.03	$ (0.51)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Expressed in U.S. dollars Years ended March 31,	**2002**	2001
Cash provided by (used in):		
Operating activities:		
Net income (loss)	**$ 1,486,771**	$(22,908,206)
Adjusted for (income) loss from discontinued operations	**(302,095)**	18,256,392
Items not involving cash:		
Write-off of investment	**—**	258,724
Deferred financing fees	**603,465**	706,633
Foreign exchange	**(60,511)**	198,451
Amortization	**1,986,601**	1,668,584
Future income taxes	**143,267**	395,371
Change in non-cash operating working capital:		
(Increase) decrease in accounts receivable	**(3,462,953)**	7,862,764
(Increase) decrease in prepaid expenses and deposits	**(96,663)**	184,271
(Increase) decrease in inventories	**(2,411,279)**	4,377,256
Increase (decrease) in accounts payable and accrued liabilities	**7,377,328**	(2,803,757)
Decrease in income taxes receivable	**12,027**	1,390,409
Cash provided by continuing operations	**5,275,958**	9,586,892
Cash provided by (used in) discontinued operations	**302,095**	(8,527,219)
Financing activities:		
Deferred financing fees	**—**	(1,976,502)
Shareholder advances	**—**	3,672
Bank indebtedness	**—**	(3,930,551)
Bank loans	**(4,349,018)**	4,123,809
Bank term loan	**—**	(155,541)
Subordinated debt	**—**	4,757,977
Repayment of subordinated debt	**—**	(1,614,276)
Mad Catz obligation	**—**	(3,656,281)
Proceeds from issue of share capital	**367,100**	4,057,244
Share issue costs	**—**	(85,095)
	(3,981,918)	1,524,456
Investing activities:		
Purchase of capital assets	**(1,103,614)**	(1,180,773)
Effects of exchange rate changes on cash	**(45,035)**	52,124
Increase in cash	**447,486**	1,455,480
Cash, beginning of year	**1,455,480**	—
Cash, end of year	**$ 1,902,966**	$ 1,455,480
Supplemental cash flow information:		
Income taxes paid	**$ 1,800,000**	$ 1,059,017
Interest paid	**665,862**	1,219,017

See accompanying notes to consolidated financial statements.

Mad Catz Interactive, Inc. (formerly GTR Group Inc.) (the "Company") was incorporated on February 3, 1997 under the Ontario Business Corporations Act and commenced operations on April 7, 1997.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and, except as described in note 14, conform in all material respects with accounting principles generally accepted in the United States. The principal accounting policies followed by the Company, which have been consistently applied, are summarized as follows:

(a) Principles of consolidation:
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 1328158 Ontario Inc. ("Mad Catz Canada"), Xencet Massachusetts Inc., Xencet U.S. Inc., Singapore Holdings Inc., Spoxt Pte Ltd., Mad Catz, Inc. ("MCI"), Mad Catz (Asia) Ltd., Mad Catz Europe Ltd., FX Unlimited Inc. and Mad Catz Ltd. All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Revenue recognition:
Revenue from product sales is recognized upon shipment and when title passes to the customer, after making appropriate provision for sales returns and credit memos issued.

(c) Inventories:
Raw materials, packaging materials and accessories are valued at the lower of cost and replacement cost.
Finished goods are valued at the lower of cost and net realizable value with cost being determined on an average cost basis using the first-in first-out method.

(d) Capital assets:
Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on a straight-line basis at the following annual rates:

Manufacturing and office equipment	20% - 33%
Computer hardware	33%
Computer software	33%
Computer system development	33%
Furniture and fixtures	20%
Leasehold improvements	10%
Moulds	33%

The Company assesses the value of its capital assets annually by ensuring the net recoverable amount of its assets exceeds the net carrying amount. In the year of a write-down, capital assets will be reduced by a charge to income.

(e) Goodwill:
Goodwill, representing the excess of the purchase price over the fair value of identifiable net assets acquired, is amortized on a straight-line basis over 20 years.
The Company assesses the continuing value of goodwill each year by reviewing the undiscounted cash flows of the related business, taking into account the risk associated with the investment. In the year of an impairment in value, the goodwill will be reduced by a charge to income.

(f) Deferred financing fees:
Deferred financing fees include costs related to obtaining debt financing and are amortized on a straight-line basis over the term of the debt.

(g) Employee stock option plan:
The Company has an employee stock-based option plan, which is described in note 8. No compensation expense is recorded on granting of stock options. Any consideration paid by the employees on the exercise of the stock options or purchase of stock is credited to share capital.

(h) Income taxes:
Income taxes are accounted for using the liability method. Under the liability method of accounting for income taxes, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities and for tax loss carryforwards.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date. To the extent that it is not "more likely than not" that a future tax asset will be realized, a valuation allowance is provided.

(i) Foreign currency translation:
The Company has adopted the United States dollar as its reporting currency for its financial statements, commencing April 1, 2001. Comparative figures previously reported in Canadian dollars have been translated at the exchange rate in effect April 1, 2001.

The United States dollar is the functional currency of the Company's United States operations. The Canadian dollar is the functional currency of the Company's Canadian operations, which are translated to United States dollars using the current rate method. The British pound is the functional currency of the Company's United Kingdom operations, which are translated to United States dollars using the current rate method.

Foreign currency transactions and account balances have been translated where applicable into United States dollars as follows: monetary assets and monetary liabilities are translated into United States dollars at the rate of exchange in effect at the balance sheet date; revenue and expenses are translated into United States dollars at the average rates of exchange prevailing during the year. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statements of operations and deficit.

The assets and liabilities of the Company and of Mad Catz Canada, which have the Canadian dollar as the functional currency, and of Mad Catz Europe Ltd., which has the British Pound as its functional currency are considered financially and operationally independent, and are translated into United States dollars at the rate of exchange in effect at year end. The revenue and expenses of these self-sustaining operations are translated at the average rate of exchange in effect during the year. The foreign currency translation adjustment is deferred and included as a separate component of shareholders' equity.

(j) Use of estimates:
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(k) Credit risk:
The Company extends credit on an uncollateralized basis to certain of its customers and monitors this on a continuing basis.

(l) Net income (loss) per share:
Effective April 1, 2001, the Company changed its method of calculating net income (loss) per share, on a retroactive basis, in accordance with Section 3500 of The Canadian Institute of Chartered Accountants' ("CICA") Handbook. Under the new recommendations, the treasury stock method is used to calculate diluted net income (loss) per share, consistent with United States accounting principles. The treasury stock method assumes any option proceeds would be used to purchase common shares at the average market price during the period. This change has no impact on the reported net income (loss) per share for the prior year presented.

NOTE 2 DISCONTINUED OPERATIONS

In March 2001, the Company's Board of Directors adopted a formal plan to dispose of the assets and business operations of its GTI (previously played video game business) and ZapYou.com (internet distribution) business units. These units are accounted for as discontinued operations and, accordingly, amounts in the financial statements and related notes for all periods shown have been restated to reflect discontinued operations accounting. As at March 31, 2002, all of the assets of GTI and ZapYou.com have been disposed of. The Company will maintain a provision for accounts payable and accrued liabilities until such time that all recognized obligations of the previous GTI and ZapYou.com businesses are settled.

During 2002, the Company recorded a net gain of $302,095 (2001 - net loss of $18,256,392), net of income taxes of nil (2001 - net of income tax recovery of $3,976,468) in respect of GTI and ZapYou.com business units. Net revenue applicable to GTI and ZapYou.com during the years presented was nil (2001 - $15,996,042). The 2002 gain from discontinued operations is a result of revaluing the fiscal 2001 provisions to provide for the expected future liabilities associated with the GTI and ZapYou.com businesses. The 2001 loss from discontinued operations includes accrued charges of $1,018,754 for estimated costs to exit the GTI and ZapYou.com business units. The loss also includes the following writedowns of assets to their net realizable value related to the dispositions of the business units:

Inventories	$ 2,657,944
Capital assets	2,093,929
Goodwill	2,215,866
Future tax asset	3,947,411
Accounts receivable	2,011,766
	$12,926,916

The assets of the GTI and ZapYou.com business units in the consolidated balance sheets include the following:

	2002	2001
Cash	$520,836	$ 802,360
Inventories	—	2,140,805
Accounts receivable	—	1,634,818
Capital assets	—	69,784
	$520,836	$4,647,767

The liabilities of the GTI and ZapYou.com business units, which are included in the consolidated balance sheets are as follows:

	2002	2001
Bank loan	$ —	$1,928,913
Accounts payable and accrued liabilities	424,305	2,627,291
	$424,305	$4,556,204

The Company anticipates additional expenses relating to legal expenses, salaries and severance expenses of $424,305 to be incurred relating to the disposition of its GTI and ZapYou.com business units. These expenses have been accrued in the current year's financial statements and are reflected in the above accrued liabilities amounts.

During 2002, GTI paid $25,369 (2001 - $689,488) in interest expense in respect of the discontinued operations.

NOTE 3 INVENTORIES

	2002	2001
Raw materials	$ 4,516,360	$ 4,007,946
Finished goods	11,163,351	9,071,391
Packaging materials and accessories	239,187	413,969
	$15,918,898	$13,493,306

Raw materials in 2001 represent unprocessed and unpackaged game cartridges and computer chips. In 2002, raw materials represent computer chips only.

During 2001, inventories of $2,657,944 were written down in respect of liquidating GTI inventories (note 2).

NOTE 4 CAPITAL ASSETS

			2002	2001
	Cost	Accumulated amortization	Net book value	Net book value
Manufacturing and office equipment	$ 156,108	$ 75,220	$ 80,888	$ 158,945
Computer hardware	869,895	453,816	416,079	192,389
Computer software	222,354	105,319	117,035	108,845
Computer system development	3,200	711	2,489	11,473
Furniture and fixtures	147,898	51,112	96,786	28,547
Leasehold improvements	415,830	137,911	277,919	198,413
Moulds	2,303,829	1,375,276	928,553	1,034,904
	$4,119,114	$2,199,365	$1,919,749	$1,733,516

During 2001, $994,070 and $1,099,859 of capital assets were written down to their estimated net recoverable amount of $69,784 in respect of GTI and ZapYou.com, respectively (note 2). Capital assets written down included furniture and fixtures, computer hardware and software, computer system development costs, leasehold improvements and racks and kiosks.

NOTE 5 GOODWILL

			2002	2001
	Cost	Accumulated amortization	Net book value	Net book value
Goodwill	$18,787,443	$2,425,268	$16,362,175	$17,529,191

During 2001, $2,215,866 of goodwill was written off as part of discontinued operations in respect of the original purchase of GTI (note 2).

NOTE 6 BANK LOANS

On September 25, 2000, MCI signed a loan agreement with Congress Financial Corporation (Central) ("Congress") to borrow up to $35,000,000 under a revolving line of credit. The line of credit accrues interest on the daily outstanding balance at U.S. prime rate plus 0.75% per annum, expires in 2003 and must be repaid in United States dollars. The line of credit is secured by a first priority interest in MCI's inventories, equipment, accounts receivable and investment properties. The line of credit is guaranteed by the Company.

On September 25, 2000, GTI signed a loan agreement with Congress to borrow up to Cdn. $15,000,000 under a revolving line of credit. The line of credit accrues interest on the daily outstanding United States dollar balance at U.S. prime rate plus 0.75% per annum and on the Canadian dollar balance at Canadian prime rate plus 0.75%. The line expires in 2003. The line of credit is secured by a first priority interest in GTI's inventories, equipment, accounts receivable and investment properties. The line of credit is guaranteed by the Company and MCI. In fiscal year 2002, the GTI portion of the bank loan was repaid in full, and the line of credit was closed.

The Company has also been granted $10,000,000 line of credit from Congress to be used for acquisition purposes under the same conditions and terms as the lines of credit described above.

The Congress loan agreements also require the borrowers to meet a monthly consolidated tangible net worth covenant. As at March 31, 2002, the Company was in compliance with this covenant.

NOTE 7 SUBORDINATED DEBT

On September 18, 2000, the Company signed a loan agreement with a shareholder and director to borrow $5,000,000. The loan accrued interest on the daily outstanding balance at 14% per annum. As at July 17, 2001, an agreement was reached to convert the outstanding loan to equity. The balance of the loan at that date was $3,361,770, which included $23,051 of unpaid interest due. The loan was converted at a share price of Cdn. $1.218 which was the five day average share price for the period from June 12 to June 18, 2001. A total of 4,247,478 shares were issued.

Additional conditions of the loan required the Company to issue 200,000 warrants to purchase the Company's common stock. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.91. The warrants expire on September 18, 2002.

NOTE 8 CAPITAL STOCK

(a) Authorized:

Unlimited Class A preferred shares
Unlimited Class B preferred shares
Unlimited common shares

(b) Issued:

Common shares	Number of shares	Amount
Balance, March 31, 2000	40,613,506	$34,488,704
Exercise of options under stock option plan	225,999	177,634
Shares issued on exercise of warrants	5,303,791	4,071,801
Shares issued for Mad Catz purchase	2,059,739	3,266,731
Warrants purchased	—	(96,733)
Share issue costs, net of tax effect	—	(85,095)
Balance, March 31, 2001	48,203,035	41,823,042
Exercise of options under stock option plan	459,035	370,098
Shares issued on conversion of subordinated debt (note 7)	4,247,478	3,361,770
Balance, March 31, 2002	**52,909,548**	$45,554,910

(c) Share purchase warrants:

At March 31, 2002, the following share purchase warrants are outstanding:

	Price	Expiring
200,000	**$0.91**	**September 2002**

Each share purchase warrant entitles the holder to acquire one common share of the Company at the price specified.

(d) Stock option plan:

Under the Company's share option plan (the "Plan"), options are granted to purchase common shares and are exercisable over a period of a maximum of five years. Directors options vest immediately and other options vest over a period of three years. As part of the Plan the following director, officer and employee stock options have been granted and are outstanding:

	2002		2001	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	**2,443,410**	**$1.51**	1,900,659	$2.00
Granted	**1,928,833**	**0.68**	977,250	1.15
Exercised	**(459,035)**	**0.84**	(225,999)	0.79
Expired/cancelled	**(411,741)**	**1.27**	(208,500)	1.94
Outstanding, end of year	**3,501,467**	**1.16**	2,443,410	1.51

The following summarizes information about stock options outstanding as at March 31, 2002:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.45 - 0.60	1,309,167	4.0	$0.55	663,176	$0.53
$0.85 - 1.22	971,300	4.2	0.98	571,510	1.01
$1.27 - 1.90	701,000	2.6	1.63	684,000	1.62
$2.06 - 2.47	520,000	2.3	2.39	520,000	2.39
	3,501,467	3.5	$1.16	2,438,686	$1.35

NOTE 9 INCOME TAXES

(a) The income tax provision consists of the following:

	2002	2001
Current income tax expense	**$1,712,277**	$2,133,362
Future income tax expense	**143,267**	935,969
	$1,855,544	$3,069,331

(b) The difference between the amount of the reported income tax provision and the amount computed by multiplying the income before income taxes by the Company's applicable statutory tax rate of approximately 39% (2001 - 42%) is reconciled as follows:

	2002	2001
Income tax expense using the Company's statutory tax rates	**$1,174,133**	$ (827,688)
Income taxed in foreign jurisdictions	**58,430**	(40,549)
Write-off of losses previously tax benefited	**—**	1,651,058
Temporary differences not tax-benefited	**333,706**	1,543,890
Amortization of goodwill	**377,188**	400,433
Other	**(87,913)**	(77,342)
Write-off of income tax receivable	**—**	419,529
	$1,855,544	$3,069,331

(c) The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at March 31, 2002 is as follows:

Future tax assets - current:	
State taxes paid/deductible in future	**$ 138,117**
Inventories	**763,246**
Accounts receivable	**1,419,535**
	2,320,898
Less valuation allowance	**250,063**
Net future tax assets - current	**$ 2,070,835**
Future tax assets - non-current:	
Unclaimed scientific research expenditures	**$ 149,898**
Capital assets	**218,488**
Deferred financing fees	**661,311**
Tax loss carryforward	**9,710,372**
Goodwill	**712,847**
	11,452,916
Less valuation allowance	**11,452,916**
Net future tax assets - non-current	**$ —**
Future tax liabilities - non-current:	
Future inventory deduction	**$ 136,886**

(d) The Company has non-capital income tax losses of $9,324,000, which may be carried forward to reduce future years' taxable income. These losses expire as follows:

2004	$ 646,000
2005	654,000
2006	500,000
2007	1,600,000
2008	3,691,000
2009	2,233,000
	$ 9,324,000

The Company also has net capital tax losses of approximately $1,975,000, which are available indefinitely to offset capital gains.

The Company's Canadian subsidiary has non-capital income tax losses of $21,210,500, which may be carried forward to reduce future years' taxable income. These losses expire as follows:

2003	$ 2,082,000
2004	3,750,000
2005	1,873,000
2006	4,500
2007	638,000
2008	7,218,000
2009	5,645,000
	$ 21,210,500

(e) The Company is undergoing tax audits of the 1996 to 1998 taxation years. No reassessments have been received and the outcome of the audits is not determinable at this time.

One of the Company's foreign subsidiaries' tax filings for prior taxation years are being reviewed by foreign tax authorities. No reassessments have been received by the Company's foreign subsidiary and the outcome of this review is not determinable at this time.

(f) The Company operates one of its foreign subsidiaries on the basis that its operations in certain jurisdictions are exempted from taxation in these jurisdictions. The Company understands that its tax position with respect to these jurisdictions is subject to challenge and/or change by the applicable foreign tax authority.

NOTE 10 FINANCIAL INSTRUMENTS

The carrying values of the Company's financial instruments, including cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The carrying values of the bank loan and the subordinated debt approximate their fair values as the interest rates are those which are currently available to the Company.

NOTE 11 NET INCOME (LOSS) PER SHARE

(a) Basic:

Basic net income (loss) per share are based on the weighted average number of common shares issued and outstanding during the year calculated on an annual basis being 51,188,889 (2001 - 45,297,305).

(b) Diluted:

The following table sets forth the computation of diluted income (loss) per share:

	2002	2001
Numerator:		
Net income (loss)	**$ 1,486,771**	$(22,908,206)
Net income (loss) available to common shareholders	**$ 1,486,771**	$(22,908,206)
Denominator:		
Weighted average common shares outstanding	**51,188,889**	45,297,305
Effect of dilutive securities:		
Employee stock options	**716,348**	—
Warrants	**51,458**	—
Weighted average shares - diluted	**51,956,695**	45,297,305

In 2002, 1,222,100 options were not included as they were considered anti-dilutive. Stock options and warrants were not included in 2001 as they are considered anti-dilutive.

NOTE 12 COMMITMENTS AND CONTINGENCIES

(a) The following are the payments required under operating leases for the next five years:

Year ending March 31:

2003	$ 877,554
2004	779,279
2005	834,878
2006	836,716
2007	170,547
	$ 3,498,974

(b) Royalty and license agreements:

The Company has licensing agreements to utilize existing design and utility technology with its products. The Company also has royalty agreements for use of licensed trademarks and celebrity endorsements. These agreements have royalty and licensing fees based on different percentages of certain types of sales or a predetermined amount per unit. The minimum royalty payable under these agreements for fiscal year 2003 is approximately $1,000,000.

(c) Other:

There are a number of legal actions against the Company, none of which, in the opinion of management, is expected to have a material adverse impact on the financial position or results of operations of the Company.

NOTE 13 SEGMENTED DATA

The Company's sales and capital assets are attributed to the following countries:

	2002	2001
Net sales:		
Canada	**$ 1,450,556**	$ 1,697,398
United States	**71,743,787**	44,553,329
International	**10,142,791**	9,530,903
	$ 83,337,134	$ 55,781,630

Revenue is attributed to countries based on the location of the customer. During the year, the Company sold a total of 48% of its products to two customers (2001 - 43% to two customers).

	2002	2001
Capital assets:		
Canada	**$ 1,175**	$ 69,783
United States	**902,323**	557,270
International	**1,016,251**	1,106,463
	$1,919,749	$1,733,516

Goodwill for both years presented is attributed to Canada.

NOTE 14 CANADIAN AND UNITED STATES ACCOUNTING POLICY DIFFERENCES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied in Canada. In certain respects, GAAP as applied in the United States differs from that applied in Canada.

Reconciliation of net income (loss) determined in accordance with generally accepted accounting principles in Canada to net income (loss) determined under accounting principles which are generally accepted in the United States is as follows:

	2002	2001
Income (loss) from continuing operations, as reported	**$1,184,676**	$ (4,651,814)
Compensation expense (a)	**(517,270)**	—
Change in reporting currency (d)	**—**	(224,300)
Income (loss) from continuing operations in accordance with United States accounting principles	**$ 667,406**	$ (4,876,114)
Income (loss) from discontinued operations, as reported	**$ 302,095**	$(18,256,392)
Change in reporting currency (d)	**—**	(880,615)
Income (loss) from discontinued operations in accordance with United States accounting principles	**$ 302,095**	$(19,137,007)
Net income (loss) in accordance with United States accounting principles	**$ 969,501**	$(24,013,121)
Cumulative translation adjustment	**(290,129)**	846,749
Comprehensive income (loss) in accordance with United States accounting principles	**$ 679,372**	$(23,166,372)
Net income (loss) per share in accordance with United States accounting principles:		
Basic and diluted	**$ 0.01**	$ (0.53)

The areas of material difference between Canadian and United States GAAP and their impact on the consolidated financial statements of the Company are described as follows:

(a) Stock-based compensation:

For United States GAAP purposes, the Company measures compensation using the intrinsic value method as specified by APB Opinion 25. During the year, 859,501 options with exercise prices ranging from Cdn. $0.94 to Cdn. $2.00 were repriced to Cdn. $0.84 and 100,000 options at Cdn. $2.00 were repriced to Cdn. $0.90. Under United States GAAP, subsequent to the repricing, these options would be considered variable resulting in compensation expense. Based on the March 31, 2002 share price, compensation expense related to the repricing of the above noted options is calculated to be $517,270. Under Canadian GAAP there would be no compensation expense recorded for the above noted stock option repricing.

(b) Income taxes:

Included in the caption "Income taxes" is the tax effect of various adjustments where appropriate and the impact of substantively enacted rate changes that would not have been recorded under United States GAAP. Under Canadian GAAP, future income tax assets and liabilities are remeasured for substantively enacted rate changes, whereas under United States GAAP, future income tax assets and liabilities are only measured for enacted tax rates. There is no impact of applying substantively enacted tax rates in 2002 and 2001.

(c) Operating income before amortization:

United States GAAP requires that amortization be included in the determination of operating income and does not permit the disclosure of a subtotal of the amount of operating income before this item. Canadian GAAP permits the disclosure of a subtotal of the amount of operating income before this item.

(d) Change in reporting currency:

Under United States accounting principles, when a change in reporting currency occurs, the new reporting currency should be used to retroactively restate all prior periods for which financial information is presented based on exchange rates in effect in those prior periods. Canadian GAAP permits the use of translation of convenience whereby all comparative amounts are translated at the exchange rate on the date of change in reporting currency.

(e) Impact of recent United States accounting pronouncements: In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 was effective as of July 1, 2001 and SFAS No. 142 is effective April 1, 2002. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and, subsequently, SFAS No. 144 after its adoption. The CICA has adopted similar standards and, accordingly, there will be no United States - Canadian GAAP differences arising from the addition of these standards. The Company has no intangible assets.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. The Company is required to adopt SFAS No. 144 on April 1, 2002 on a prospective basis.

Directors & Officers and Corporate Information

Board of Directors

Patrick Brigham
Chairman, Mad Catz Interactive, Inc./President Hartay Enterprises Inc.

Don Lenz
Managing Director
Brompton Securities Ltd.

Cary McWhinnie
Businessman

Morris Perlis
President & CEO Mad Catz Interactive, Inc.

Brendan Ryan
President & CEO,
Foote, Cone and Belding Worldwide

Officers
Mad Catz Interactive, Inc.

Morris Perlis
President and Chief Executive Officer

Darren Richardson
Executive Vice President

Andy Schmidt
Chief Financial Officer

Management
Mad Catz Inc.

Darren Richardson
President and Chief Operating Officer

Andy Schmidt
Chief Financial Officer

Tom Roberts
Senior Vice President

Warren Cook
Vice President Sales

Whitney Peterson
Vice President Corporate Development and Corporate Counsel

Shareholder Information
For a copy of the Annual Report, Interim Reports and/or any other investor related material contact:

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F: 212-981-8174
madcatz@adam-friedman.com

Transfer Agent and Registrar
Inquiries regarding change of address, registered shareholdings, share transfers, lost certificates, and duplicate mailings should be directed, as appropriate, to:

Computershare Trust Company of Canada
100 University Avenue
11th Floor
Toronto, Canada M5J 2Y1

Stock Exchange Listing
The Toronto Stock Exchange
Ticker Symbol: MCZ

American Stock Exchange
Ticket Symbol: MCZ

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Annual Meeting
Our Annual Meeting of Shareholders will be held on Wednesday, August 7 at 10:30 a.m. at Lang Michener Barristers & Solicitors,
181 Bay Street
Toronto, Ontario M5J 2T7

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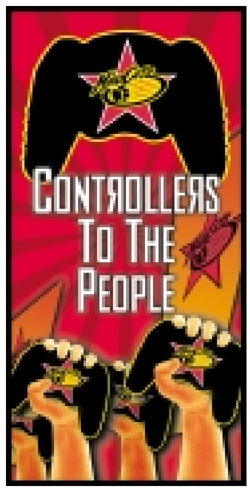

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