Management's Report

Nstein's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this Annual Report.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are based on 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.

Nstein's policy is to maintain a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and that our assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its financial reporting responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these responsibilities primarily through its Audit Committee.

The Audit Committee is appointed by the Board and is composed of outside directors. The Committee meets periodically with Management and external auditors to review accounting, auditing and internal control procedures.

These consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The consolidated financial statements have been audited on behalf of shareholders by PricewaterhouseCoopers LLP/s.r.l/s.e.n.c.r.l, the external auditors, in accordance with generally accepted auditing standards. The external auditors have full and free access to the Audit Committee.

Mario Girard
Chairman and Chief Executive Officer

Bruno Martel
Chief Financial Officer

Montreal, Quebec, Canada, March 15, 2007

Auditors' Report

To the Shareholders of Nstein Technologies Inc.

We have audited the consolidated balance sheets of Nstein Technologies Inc. as at December 31, 2006 and 2005 and the consolidated statements of earnings 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. 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 December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada, March 15, 2007

CONSOLIDATED BALANCE SHEETS†
AS AT DECEMBER 31, 2006 AND 2005

	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	2,367,125	1,928,718
Short-term restricted cash (note 6)	1,859,799	-
Term deposits (note 6)	191,121	164,600
Accounts receivable	4,189,878	1,612,137
Refundable tax credits	780,267	827,849
Work in progress	578,105	451,639
Prepaid expenses	185,535	125,237
Current portion of balance receivable on the sale of software licenses	176,598	178,327
	10,328,428	**5,288,507**
Balance receivable on the sale of software licenses	**-**	**165,996**
Property, plant and equipment (note 4)	**455,902**	**370,447**
Intangible assets (note 5)	**1,554,998**	**748,043**
Deferred financing expenses	**67,074**	**343,500**
Goodwill (note 3)	**5,641,574**	**5,166,876**
	18,047,976	**12,083,369**
Liabilities		
Current liabilities		
Bank loans	-	248,952
Accounts payable and accrued liabilities	3,726,835	2,369,679
Deferred revenues	655,896	327,151
Current portion of long-term debt (note 6)	2,121,927	2,064,542
	6,504,658	**5,010,324**
Long-term debt (note 6)	**1,074,847**	**2,988,619**
	7,579,505	**7,998,943**
Shareholders' Equity		
Share capital (note 7)	**40,178,085**	**29,534,130**
Other equity components (note 8)	**2,269,836**	**2,160,640**
Contributed surplus (note 9)	**532,143**	**66,877**
Deficit	**(32,511,593)**	**(27,677,221)**
	10,468,471	**4,084,426**
	18,047,976	**12,083,369**
Commitments (note 10)		
Contingency (note 15)		

† The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors

Mario Girard, Director

Michel Lavigne, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT†
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 $	2005 $
Revenues (note 14)	**10,717,311**	**9,103,887**
Cost of sales	**5,568,827**	**4,818,093**
	5,148,484	**4,285,794**
Expenses		
Selling and administrative	6,291,781	6,004,261
Research and development	2,157,593	2,235,809
Research and development tax credits and other credits	(515,017)	(818,972)
Depreciation of property, plant and equipment	148,580	137,533
Amortization of intangible assets	286,906	1,152,049
Gain on disposal of property, plant and equipment and intangible assets	-	(3,284)
Impairment of intangible assets (note 5)	-	1,306,444
Exchange loss (gain)	(122,482)	110,969
Financial expenses (note 11a)	1,735,495	930,110
	9,982,856	**11,054,919**
Net loss for the year	**4,834,372**	**6,769,125**
Deficit - Beginning of year	**27,677,221**	**20,908,096**
Deficit - End of year	**32,511,593**	**27,677,221**
Basic and diluted net loss per share (note 2)	**0.186**	**0.363**
Basic and diluted weighted average number of shares outstanding	**25,949,784**	**18,641,856**

† The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS†
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006 $	2005 $
Cash flows from operating activities		
Net loss for the year	(4,834,372)	(6,769,125)
Items not affecting cash and cash equivalents		
Interest capitalized on long-term debt	116,042	435,920
Unrealized exchange gain	(50,273)	-
Depreciation of property, plant and equipment	148,580	137,533
Amortization of intangible assets	286,906	1,152,049
Amortization of deferred financing expenses	276,426	283,197
Stock-based compensation costs	416,300	250,853
Costs related to the employee stock purchase plan	14,656	-
Gain on disposal of property, plant and equipment	-	(3,284)
Impairment of intangible assets	-	1,306,444
	(3,625,735)	(3,206,413)
Change in non-cash operating working capital items		
Accounts receivable	(2,091,810)	911,746
Refundable tax credits	194,230	318,136
Work in progress	(109,891)	(399,532)
Prepaid expenses	(57,539)	64,104
Balance receivable on the sale of software licenses	1,729	(178,327)
Accounts payable and accrued liabilities	590,365	(322,173)
Deferred revenues	326,459	(23,443)
	(1,146,457)	370,511
	(4,772,192)	**(2,835,902)**
Cash flows from financing activities		
Variation in bank loans	(248,952)	248,952
Long-term debt	1,300,000	3,657,301
Payments on long-term debt	(2,635,837)	(1,964,059)
Deferred financing expenses	(92,213)	(314,774)
Issuance of common shares, net of issue expenses	9,292,517	2,000
Other equity components, net of issue expenses	-	874,191
	7,615,515	**2,503,611**
Cash flows from investing activities		
Variation in term deposits	(337)	-
Variation in short-term restricted cash	(1,859,799)	-
Variation in balance receivable on the sale of software licenses	165,996	(165,996)
Business acquisitions, net of cash and cash equivalents acquired	(534,230)	(222,130)
Additions to property, plant and equipment	(156,228)	(97,749)
Additions to intangible assets	(20,318)	(12,319)
Proceeds from the sale of property, plant and equipment	-	7,629
	(2,404,916)	**(490,565)**
Net change in cash and cash equivalents	**438,407**	**(822,856)**
Cash and cash equivalents – Beginning of year	**1,928,718**	**2,751,574**
Cash and cash equivalents – End of year	**2,367,125**	**1,928,718**
Additional information (note 11b and c)		

† The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1– Statutes and nature of activities

This Company, incorporated in January 2000 under Part 1A of the *Québec Companies Act*, develops and markets leading-edge content management software for the media, publishing and entertainment industries, enabling the centralization, enrichment and publication of textual and rich media assets using advanced text mining and helping publishers significantly increase their content monetization and reduce their operational costs.

Note 2 – Summary of significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Nstein R&D Inc., Nstein Technologies Corp., KMTechnologies Inc., Alis Technologies Inc., Cabinet Conseil Valsar Inc., and DG2LT S.A.R.L. with its subsidiary Eurocortex S.A.S (“Eurocortex”).

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the allowance for doubtful accounts receivable, tax credits recoverable, the useful lives of property, plant and equipment and intangible assets, impairment of long-lived assets, certain accrued liabilities and measurement of financial instrument. Actual results could differ from those estimates.

Foreign currency

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the monthly average rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of earnings.

Foreign subsidiaries

Foreign subsidiaries are considered to be integrated foreign operations. As a result, the foreign subsidiaries' accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the monthly average rate for the year. Gains and losses arrising from such remeasurement are reflected in the statements of earnings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks as well as all highly liquid short-term investments.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated over their useful lives using the declining balance method calculated monthly at the rates mentioned in note 4, except for leasehold improvements, which are depreciated using the straight-line method over a period of five years.

Intangible assets

Intangible assets are recorded at cost and are amortized on a declining balance or straight-line basis using the rates and periods mentioned in note 5.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis, or more frequently if events or circumstances indicate that it might be impaired. The recoverability of goodwill is established at the reporting unit level on the basis of a two-step impairment test. First, the net carrying value of a reporting unit is compared to its fair value, which is established on the basis of its market value. If the net carrying value of a reporting unit exceeds its fair value, the second step of the test must be performed. For this step, the amount of any goodwill impairment loss is the excess of the carrying value of goodwill over its fair value. This amount is charged to earnings in the period in which it is incurred. For purposes of this impairment test, the fair value of goodwill is estimated in the same way as goodwill is determined in business acquisitions, meaning that it represents the excess of a reporting unit's fair value over the estimated fair value of its net identifiable assets. The Company comprises a single reporting unit. The Company has elected to perform its annual impairment test in December of each year and noted no impairment loss for the fiscal years 2006 and 2005.

Deferred financing expenses

Deferred financing expenses relate to the contracted debts and the granting of warrants and are amortized over the term of the related financing.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of an asset or a group of assets is greater than the undiscounted future cash flows expected to be provided by the asset or group of assets. The amount of impairment loss is the excess of the carrying value over fair value. The fair value of those assets is determined based on discounted future cash flows. During fiscal 2006, no impairment was recognized compared to December 31, 2005, where some long-lived assets were impaired (note 5).

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities, using enacted or substantively enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Tax credits

As a result of its eligibility for the Cité Multimédia Montréal program, the Company is entitled to a refundable tax credit of 40% on qualified salaries up to an annual maximum of $15,000 per employee. Research and development tax credits and other tax credits are accounted for using the cost reduction method. Under this method, tax credits related to eligible expenditures are accounted for as a reduction of the related expenditures in the year in which the expenditures are incurred, provided their realization is reasonably assured. These tax credits could be subjected to a review and a possible adjustment by the Canadian federal and Quebec provincial tax authorities.

Revenue recognition, work in process and deferred revenues

The Company recognizes revenues from the sale of software licenses and related post-contract customer support and other related services in accordance with Emerging Issues Committee Abstracts EIC-141 to 143 on revenue recognition. Fees from arrangements involving licenses, post-contract customer support and other related services are allocated to the various elements based on company-specific objective evidence of the fair value of each of the elements. Revenues from software licenses are recognized when there is persuasive evidence of a valid arrangement, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable and collection is considered probable. Revenues from post-contract customer support elements are recognized rateably over the related support period. Revenues from other related services are recognized as the services are performed using the percentage-of-completion method and all foreseeable losses are included in earnings, when it is determined that such losses are estimated to be likely to occur. Furthermore, amounts received for services not yet rendered are accounted for as deferred revenues in the balance sheet.

Research and development expenses

Research costs are expensed as incurred. Product development costs are deferred if the product or process and its market or usefulness are clearly defined, the product or process has reached technological feasibility, adequate resources exist or are expected to exist to complete the project and management intends to market or use the product or process. Technological feasibility is attained when the software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has historically been relatively short with immaterial development costs incurred during this period. Accordingly, the Company has not capitalized any development costs.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year. Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the "if-converted" method for convertible debentures and using the treasury stock method for stock options and warrants, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Company at the average market value of the participating shares during the year. For the years ended December 31, 2006 and 2005, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options, warrants and convertible debentures was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding.

Share issue expenses

Share issue expenses have been applied against the proceeds from the issuance of share capital.

Stock-based compensation and other stock-based payments

The Company provides for a stock option plan, as described in note 7. Since January 1, 2004, the Company accounts for all forms of employee stock-based compensation using the fair value-based method. Stock-based compensation costs are amortized to expense over the vesting periods.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Note 3 – Business combination

On December 14, 2006, the Company acquired all of the outstanding shares of Eurocortex, a leader in content management solutions for the publishing, media and entertainment industries. Under the agreement, the Company issued 1,013,152 common shares, and made a cash payment of $502,698 (€330,000). The shares were subject to a 24-month escrow. After the shares will be released from escrow at the rate of 33.3% after a four-month period from the closing date, 33.3% after a twelve-month period and the remaining 33.4% after a twenty-four-month period.

This acquisition has been accounted for using the purchase method and the results have been consolidated from the acquisition date. The purchase price has been reduced by an average discount of 35% in order to consider the impact of the escrow on the share values and a blockage discount due to the large number of shares traded at a precise moment in a limited market. The following table summarizes the purchase price allocation, including business combination-related costs based on the estimated fair value of the net assets acquired at the date of the acquisition.

	$
Cash and cash equivalents	**(7,206)**
Other current assets	**678,097**
Property, plant and equipment	**77,807**
Intangible assets	**496,000**
Total assets acquired	**1,244,698**
Current liabilities	**766,315**
Long-term debt	**47,991**
Total liabilities assumed	**814,306**
Net identifiable assets acquired	**430,392**
Goodwill	**474,698**
Purchase price	**905,090**
Settled as follows:	
Common shares issued	**329,676**
Cash amount	**502,698**
Business combination-related costs	**72,716**
	905,090

Note 4 – Property, plant and equipment

		2006		2005	
	Depreciation rates and period	Cost	Accumulated depreciation	Cost	Accumulated depreciation
		$	$	$	$
Office furniture and equipment	20%	250,189	156,763	249,339	136,050
Automotive equipment	30%	67,713	7,534	-	-
Computer equipment	35%	920,050	662,633	757,323	570,368
Leasehold improvements	5 years	290,175	245,295	262,145	191,942
		1,528,127	**1,072,225**	**1,268,807**	**898,360**
Less: Accumulated depreciation		1,072,225		898,360	
Net amount		**455,902**		**370,447**	

Note 5 – Intangible assets

		2006		2005	
	Amortization rates and period	Cost	Accumulated amortization	Cost	Accumulated amortization
		$	$	$	$
Software	50%	823,904	222,723	225,485	190,582
Nstein software	50%	1,040,000	1,037,040	1,040,000	1,035,067
Core technology	4 years	886,857	505,729	655,857	415,652
Customer relationships	5 years	1,027,192	546,463	851,192	432,191
Non-compete agreements	2 years	317,507	228,507	228,507	179,506
		4,095,460	**2,540,462**	**3,001,041**	**2,252,998**
Less: Accumulated amortization		2,540,462		2,252,998	
Net amount		**1,554,998**		**748,043**	

Due to lower-than-expected sales levels or higher-than-expected expenses, the Company performed an impairment test on its intangible assets as at December 31, 2005. Based on the analysis of cash flows expected to be provided from these assets, the carrying value of some intangible assets, which was initially established following the acquisition in 2004 of KMTechnologies Inc., Alis Technologies Inc. and Cabinet Conseil Valsar Inc., exceeded the fair value of such assets. The Company therefore expensed an amount of $1,306,444, which has been accounted for in earnings as an impairment of intangible assets for the year ended December 31, 2005.

Note 6 – Long-term debt

	2006 $	2005 $
Term loans		
- Secured convertible debentures, non-interest bearing, issued at discount, payable in 19 monthly installments of $260,030 (US$223,125) from February 2006 to September 2006, $241,457 (US$207,188) from October 2006 to July 2007 and a final installment of $206,963 (US$177,590) in August 2007*	1,560,014	3,455,443
- Prime rate plus 2%, payable in monthly principal installments of $15,377 plus interest, secured at 80% by Investissement Québec, maturing in August 2007. A moveable hypothec on all present and future assets, both tangible and intangible, of a subsidiary, has been given as security	119,295	303,819
- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in four annual installments of $78,338, starting on January 1, 2007, maturing in January 2010	277,974	343,654
- Discounted at 8%, with the NRC, payable in two installments of $95,000, in October 2006 and January 2007, and in quarterly installments of $47,500 from October 2007, maturing in September 2009	429,169	-
- Discounted at 10%, payable in monthly installments of $8,929, maturing in May 2013. A moveable hypothec on all present and future assets, both tangible and intangible, of the subsidiary, has been given as security	499,343	517,944
- 10%, for which a letter of credit in the amount of $164,600 has been issued, payable in monthly installments of $1,538 including principal and interest, maturing in August 2011. A moveable hypothec on a deposit certificate in the amount of $164,600 has been given as security for the letter of credit	68,586	79,576
- 4% car loan, payable in monthly installments of $1,234 (€803) including principal and interest, maturing in June 2011. A moveable hypothec on two cars has been given as security	61,036	-
- Discounted at 7%, balance of purchase price of a subsidiary, payable in three annual installments of $192,000, maturing in September 2007	181,357	352,725
	3,196,774	5,053,161
Less: Current portion	2,121,927	2,064,542
	1,074,847	2,988,619

* On October 12, 2005, the Company issued interest-free debentures with a par value of US$4,375,000 at a discount rate of 20% for a net amount of US$3,500,000. In conjunction with the private placement of $10,000,000 concluded in June 2006 (note 7), the convertible debenture holders waived most of the securities and covenants pertaining to the initial agreement. In accordance with this amended agreement, the Company deposited $1,859,799 (US$1,595,983) into a special bank account. A moveable hypothec on this bank account has been granted as security for the convertible debentures. The installments on these debentures are payable in cash or in common shares (at the lower of 90% of the weighted average trading price for the five days preceding the payment or the amended conversion price of $0.85 per share), or a combination of both depending on the predefined terms of the contract, the provisions of which limit the reimbursement in common shares to the lower of 35% of the value of the shares traded during a given base period, 50% of the monthly installments amount or 200,000 common shares. Those debentures are also convertible into common shares at the holder's option at the amended rate of $0.85 per share.

During the year ended December 31, 2006, the Company issued, as a monthly principal and interest instrument on that debt, 1,349,712 common shares with a paid-up capital of $693,434 and disbursed an amount of $2,016,649. Furthermore, during the year, certain holders of convertible debentures converted an amount of $513,831 into 464,318 common shares of the Company.

The annual principal installments required on long-term debt over the next five years amount to $2,121,927 in 2007, $332,399 in 2008, $312,665 in 2009, $189,530 in 2010 and $107,147 in 2011. As indicated previously, an amount of $1,859,799 in short-term restricted cash is reserved for the installment payment due in 2007.

Note 7 – Share capital

Authorized:
- Unlimited number of common shares, without par value, voting and participating
- Unlimited number of preferred shares, without par value, non-voting and non-participating

The following table presents the share capital activity of the Company during the years ended December 31, 2006 and 2005:

		2006		2005
	Number	Amount	Number	Amount
		$		$
Balance – Beginning of year b)	**18,642,229**	**29,534,130**	**18,640,229**	**29,532,130**
Shares issued upon the. exercise of stock options	-	-	2,000	2,000
Shares issued under the employee stock purchase plan c)	69,220	29,312	-	-
Business combination (note 3)	1,013,152	329,676	-	-
Shares issued for cash, net of issue expenses a)	11,764,706	9,077,702	-	-
Shares issued for long-term debt repayment, and conversion (notes 6 and 8)	1,814,030	1,207,265	-	-
Outstanding – End of year	**33,303,337**	**40,178,085**	**18,642,229**	**29,534,130**

a) On June 13, 2006, the Company concluded a private placement of $10,000,000 with JLA Ventures, a Canadian venture capital firm, and Solidarity Fund QFL (the “Fund”). In connection with this transaction, the Company issued 11,764,706 common shares at a subscription price of $0.85 per share. Desjardins Securities “Desjardins” was the agent for this transaction and received a $400,000 commission fee, as well as 352,941 warrants valid for a five-year period at an exercise price of $0.85 per warrant. Share issue expenses totalling $722,139 (including Desjardins’s commission fee) have been applied against share capital. The fair value of the warrants granted to Desjardins, set at $200,159, has also been applied against share capital.

b) On the same day, the Company proceeded with the consolidation of its common shares on the basis of one new common share issued for every 10 issued prior to the consolidation. The 2005 comparative figures have been adjusted to reflect the consolidation.

c) In August 2006, the Company implemented an employee stock purchase plan. Under the plan, the employee contribution is the lower of $3,000 annually or 8% of the employee annual compensation. The Company contributes an amount equal to 100% of the employee contribution.

Stock options

Under the plan

In June 2000, the Company established a stock option plan for directors, employees and service suppliers of the Company or its subsidiaries. All the options granted under the plan may be exercised within a maximum period of 10 years following the date of grant. The Board of Directors will designate the recipients of options and will determine the number of common shares covered by each of these options, the vesting date, the exercise price, the expiry date, the vesting conditions and the restrictions related to the exercise of these options. The purchase price of these shares may not be lower than their closing price on the day preceding the date of grant. The maximum number of common shares that is issuable under the plan was fixed at 3,143,000 common shares and the maximum number that may be granted to a recipient shall not exceed 5% of all the outstanding common shares.

The Company's directors have agreed that options may generally be exercised at a rate of 20% to 33% per annum from the first anniversary of the date of grant, except for options granted to directors and service suppliers, which are exercisable on the date of grant or according to specific agreements.

The following tables present the stock option activity since January 1, 2005 and summarize information about fixed stock options outstanding and exercisable as at December 31:

	2006		2005	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	**1,477,120**	**2.87**	**909,620**	**3.80**
Granted	1,140,000	0.42	635,000	1.60
Exercised	-	-	(2,000)	1.00
Cancelled	(208,917)	2.35	(65,500)	3.24
Outstanding – End of year	**2,408,203**	**1.76**	**1,477,120**	**2.87**
Exercisable – End of year	**1,006,545**	**2.94**	**465,220**	**5.10**

	Options outstanding as at December 31, 2006		Options exercisable as at December 31, 2006	
Exercise price	**Number**	**Weighted average remaining contractual life**	**Number**	**Weighted average remaining contractual life**
$0.37	130,000	4.95	10,833	4.95
$0.40	725,000	4.73	195,833	4.73
$0.44	185,000	4.86	2,917	4.86
$0.46	75,000	4.65	10,000	4.65
$1.00	126,500	2.77	87,500	2.63
$1.20	240,000	3.96	69,375	3.96
$1.40	120,000	1.90	90,000	1.90
$1.80	75,000	3.61	18,750	3.61
$2.00	133,333	3.38	66,667	3.38
$2.10	65,000	2.82	32,500	2.82
$2.15	50,000	3.17	50,000	3.17
$2.80	242,000	2.92	148,500	2.92
$3.00	108,590	2.19	90,890	2.19
$10.00	12,500	3.45	12,500	3.45
$11.00	115,280	0.98	115,280	0.98
$29.70	5,000	3.45	5,000	3.45
	2,408,203		**1,006,545**	

Accounting for stock-based compensation plans

During the year ended December 31, 2006, the Company granted its employees and service suppliers 1,140,000 stock options. The fair value of these stock options amounts to $313,209. Compensation costs for the year ended December 31, 2006 amounted to $416,300 ($250,853 in 2005).

The fair value of options granted in each fiscal year has been established using the Black-Scholes options pricing model with the following weighted average assumptions:

	2006	2005
Risk-free interest rate	4.06%	3.66%
Expected volatility	80%	80%
Dividend yield	nil	nil
Expected life	59 months	42 months

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

Warrants

The following table presents the warrant activity during the years ended December 31, 2006 and 2005:

	2006		2005	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	**1,935,998**	**1.79**	**453,078**	**1.70**
Granted*	352,941	0.85	1,482,920	1.70
Cancelled**	(100,000)	5.00	-	-
Outstanding – End of year	**2,188,939**	**1.44**	**1,935,998**	**1.79**

* On June 13, 2006, the Company issued 352,941 warrants to Desjardins to purchase common shares at $0.85 per share over a five-year period. The fair value of warrants granted was estimated at $200,159 using the Black-Scholes valuation model with the following assumptions:

Risk-free interest rate	4.22%
Expected volatility	80%
Dividend yield	nil
Expected life	5 years

** On June 10, 2006, 100,000 warrants expired. The fair value of these warrants was transferred to the contributed surplus.

The following table presents the fair value of warrants using the Black-Scholes model:

	2006 $	2005 $
100,000 warrants in 2005 at $5.00, matured on June 10, 2006	-	92,245
204,190 warrants at $1.527, maturing on October 12, 2007	54,167	54,167
264,943 warrants at $1.30, maturing on October 13, 2007	252,627	252,627
200,000 warrants at $1.00, maturing on November 28, 2008	204,545	204,545
1,166,865 warrants at $1.80, maturing on October 12, 2010	383,538	383,538
352,941 warrants at $0.85 (nil in 2005), maturing on June 12, 2011	200,159	-
	1,095,036	987,122

Note 8 – Other equity components

The following table presents the other equity components:

	2006	2005
	$	$
Conversion option on a long-term debt*	154,421	436,486
Stock option related to a business combination*	108,589	199,902
Stock option-based compensation	911,790	537,130
Warrants (note 7)	1,095,036	987,122
	2,269,836	2,160,640

* During the year, amounts totalling of $331,381 were transferred to the contributed surplus in order to represent the unexercised portion of the options. An amount of $41,997 was transferred to share capital, representing the portion of the long-term debt conversion options that was converted during the year (note 7).

Note 9 – Contributed surplus

The following table presents the variation of the contributed surplus during the years ended December 31, 2006 and 2005:

	2006	2005
	$	$
Balance – Beginning of year	**66,877**	-
Expiry of a long-term debt conversion option (note 8)	240,068	-
Expiry of the stock option related to a business combination (note 8)	91,313	66,877
Expiry of warrants (note 7)	92,245	-
Reversal of stock options granted as compensation following employee departure	41,640	-
Balance – End of year	**532,143**	**66,877**

Note 10 – Commitments

The Company's aggregate commitments under lease agreements for offices are $1,830,463 and amount to $406,385 in 2007, $388,385 from 2008 to 2010 and $258,923 in 2011. Furthermore, the Company agreed, for the year 2007, to pay royalties of $168,750 on revenues of software licenses.

Note 11 – Additional information

Statement of earnings

a) Financial expenses

	2006	2005
	$	$
Amortization of deferred financing expenses	276,426	283,197
Interest on long-term debt	1,490,579	552,566
Interest and bank charges	52,394	130,945
Interest income	(83,904)	(36,598)
Total	1,735,495	930,110

Statement of cash flows

b) Items not affecting cash and cash equivalents related to financing and investing activities

	2006	2005
	$	$
Warrants issued	200,159	106,663
Convertible debentures converted into common shares	1,165,268	-
Intangible assets acquired included in accounts payable and accrued liabilities	59,040	-
Intangible assets acquired financed through the issuance of a long-term debt	518,503	-
Transfer of the matured portion of options to the contributed surplus	331,381	66,877
Transfer of matured warrants to the contributed surplus	92,245	-
Converted portion of the long-term debt conversion options transferred to share capital	41,997	-
Stock options granted as compensation transferred to the contributed surplus	41,640	-
Business combination-related costs included in accounts payable and accrued liabilities	48,390	-
Last year's business combination-related costs paid during the current year	-	222,130
Deferred financing expenses payable included in accounts payable and accrued liabilities	-	92,213

c) Additional information

	2006	2005
	$	$
Interest paid	1,308,539	116,647
Interest cashed	(56,390)	(25,572)

Note 12 – Financial instruments

Fair value

Cash and cash equivalents, short-term restricted cash, term deposits, accounts receivable, work in progress, balance receivable on the sale of software licenses, bank loans, accounts payable and accrued liabilities and long-term debt are financial instruments whose fair value approximates their carrying value due to their short-term maturity or current market rates.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits and accounts receivable. Cash and cash equivalents as well as a term deposits are held with high-credit quality financial institutions. Consequently, management considers the concentration of credit risk related to these instruments to be minimal.

There is no particular concentration of credit risk. Generally, the Company does not require collateral or other security from customers for trade accounts receivable; however credit is extended following an evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible.

Interest rate risk

As at December 31, 2006, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents and short-term restricted cash	Fixed and variable interest rate
Term deposits	1,65%
Accounts receivable	Non-interest bearing
Balance receivable on the sale of software licenses	6%
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 6

Currency risk

The Company is exposed to currency risks as a result of its export sales and the related trade accounts receivable. Substantially all of these sales are denominated in US dollars. These risks are partially hedged by purchases and operating expenses denominated in that foreign currency.

Note 13 – Future income taxes

The reconciliation of the income tax provision, calculated using the combined Canadian federal and provincial statutory income tax rate, with the income tax provision per the financial statements is as follows:

	2006 $	2005 $
Income tax provision at combined Canadian federal and provincial statutory tax rate (32.02% in 2006 and 31.02% in 2005)	(1,550,000)	(2,100,000)
Increase (decrease) due to:		
Variation in valuation allowance	(2,820,000)	2,110,000
Expiry of fiscal losses	2,860,000	560,000
Difference between statutory and future income tax rates	1,100,000	(860,000)
Variation in foreign currency deferred losses resulting from Canadian dollar's appreciation	(70,000)	400,000
Non-deductible expenses or non-taxable revenues	200,000	100,000
Others	280,000	(210,000)
	-	-

Significant components of the Company's future income tax assets and liabilities are as follows:

	2006 $	2005 $
Future income tax assets		
Property, plant and equipment	1,410,000	1,480,000
Intangible assets	980,000	1,340,000
Research and development expenses	5,600,000	5,220,000
Financing expenses	130,000	150,000
Others	80,000	-
Loss carry forward	13,520,000	16,400,000
	21,720,000	24,590,000
Valuation allowance	(21,590,000)	(24,410,000)
	130,000	180,000
Future income tax liabilities		
Research and development tax credits	(130,000)	(180,000)
Net future income tax assets	-	-

As at December 31, 2006, the Company had available operating losses in several tax jurisdictions, against which a valuation allowance of $13,430,000 ($16,300,000 in 2005) was established. The following table summarizes the year of expiry of these operating losses by tax jurisdiction:

Year of expiry	Canada				United States
	Federal		Provincial		and Other
	$		$		$
2007	3,240,000	-	4,590,000	-	-
2008	11,310,000	-	9,980,000	-	-
2009	7,530,000	-	7,230,000	-	-
2010	3,850,000	-	3,580,000	-	-
2014	4,010,000	-	3,960,000	-	-
2015	1,960,000	-	1,830,000	-	-
2019	-	-	-	-	40,000
2020	-	-	-	-	110,000
2021	-	-	-	-	140,000
2022	-	-	-	-	1,990,000
2023	-	-	-	-	800,000
2024	-	-	-	-	970,000
2025	-	-	-	-	690,000
2026	4,500,000	-	4,530,000	-	-
Indefinite	-	-	-	-	2,000,000
	36,400,000		35,700,000		6,740,000

During the year, losses of $8,508,685 at the federal level ($1,765,068 in 2005) and $8,965,133 at the provincial level ($1,555,173 in 2005) have expired.

In addition, a Company's subsidiary has accumulated capital losses of $590,000 ($590,000 in 2005) at the federal and provincial levels, against which a valuation allowance of $90,000 ($100,000 in 2005) was established. These losses can be carried forward indefinitely against future capital gains.

In addition to the operating losses, as at December 31, 2006, the Company has accumulated research and development expenses in Canada amounting to $13,260,000 ($11,500,000 in 2005) at the federal level and $25,850,000 ($23,590,000 in 2005) at the provincial level, against which a valuation allowance of $5,600,000 ($5,220,000 in 2005) was established. These expenses can be carried forward indefinitely against future years' taxable income in their respective tax jurisdiction. Also, investment tax credits of $2,000,000 ($1,630,000 in 2005) at the federal level can be applied against income taxes of future years expiring between 2007 and 2026.

Finally, the difference between the carrying amounts and tax bases of some assets and liabilities has created a deductible timing difference of $8,260,000 ($8,900,000 in 2005) at the federal level and $8,650,000 ($9,300,000 in 2005) at the provincial level.

Note 14 – Segment information

The Company is organized under a single operating segment, namely the sale of software solutions and related post-contract customer support. Substantially all of the Company's property, plant and equipment are located in Canada.

Revenues by geographic region are detailed as follows:

	2006	**2005**
	$	$
Canada	6,666,852	5,075,908
United States	2,014,001	2,522,886
Europe	2,036,458	1,505,093
Total	10,717,311	9,103,887

Revenues are allocated to geographic regions based on the country of residence of the related customers. Two customers represent 12% of the Company's total sales (21% for the same two customers in 2005). As at December 31, 2006, these customers represent 16% of the Company's accounts receivable (21% for the same two customers in 2005).

Note 15 – Contingency

The Company, jointly with an educational institution, are facing a lawsuit for an amount of $885,000. Management believes that the lawsuit is unfounded; accordingly, no provision has been recorded in this respect.