

# 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.

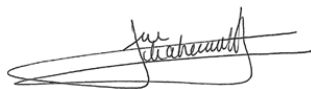
The Audit Committee is appointed by the Board and is composed of outside directors. The Committee meets periodically with Management and external auditors to review accounting, auditing and internal control procedures.

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.



Bruno Martel  
Chief Financial Officer



Luc Filiatreault  
President and Chief Executive Officer

Montreal, Quebec, Canada

March 18, 2008

# Auditors' Report

To the Shareholders of Nstein Technologies Inc.

We have audited the consolidated balance sheets of **Nstein Technologies Inc.** as at December 31, 2007 and 2006 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, 2007 and 2006 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 18, 2008

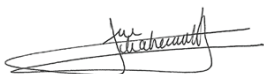
## CONSOLIDATED BALANCE SHEETS<sup>†</sup>

### AS AT DECEMBER 31, 2007 AND 2006

	2007	2006
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	11,730,855	2,367,125
Short-term restricted cash	-	1,859,799
Term deposits (note 7)	185,386	191,121
Accounts receivable	7,081,392	4,189,878
Refundable tax credits	1,540,023	780,267
Work in progress	875,350	578,105
Prepaid expenses	330,150	185,535
Current portion of balance receivable on the sale of software licenses	-	176,598
	<b>21,743,156</b>	<b>10,328,428</b>
<b>Property, plant and equipment (note 4)</b>	<b>538,336</b>	<b>455,902</b>
<b>Intangible assets (note 5)</b>	<b>1,171,188</b>	<b>1,554,998</b>
<b>Deferred financing expenses</b>	<b>-</b>	<b>67,074</b>
<b>Goodwill (note 3)</b>	<b>5,641,574</b>	<b>5,641,574</b>
	<b>29,094,254</b>	<b>18,047,976</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans (note 6)	563,280	-
Accounts payable and accrued liabilities (note 18)	4,012,304	3,726,835
Deferred revenues	1,104,685	655,896
Current portion of long-term debt (note 7)	295,997	2,121,927
	<b>5,976,266</b>	<b>6,504,658</b>
<b>Long-term debt (note 7)</b>	<b>759,832</b>	<b>1,074,847</b>
	<b>6,736,098</b>	<b>7,579,505</b>
<b>Shareholders' Equity</b>		
Share capital (note 8)	52,652,275	40,178,085
Other equity components (note 9)	2,823,558	2,269,836
Contributed surplus (note 10)	1,223,997	532,143
Deficit	(34,341,674)	(32,511,593)
	<b>22,358,156</b>	<b>10,468,471</b>
	<b>29,094,254</b>	<b>18,047,976</b>
<b>Commitments (note 11)</b>		
<b>Contingency (note 19)</b>		
<b>Subsequent events (note 20)</b>		

<sup>†</sup> The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors,



Luc Filiatreault, Director



A. Michel Lavigne, Director

**CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT<sup>†</sup>**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues (note 17)</b>	<b>18,171,858</b>	<b>10,717,311</b>
<b>Cost of sales, net of tax credits (note 12)</b>	<b>7,561,455</b>	<b>5,474,801</b>
	<b>10,610,403</b>	<b>5,242,510</b>
<b>Expenses</b>		
Selling and administrative	8,233,356	6,291,781
Research and development, net of tax credits (note 12)	2,248,335	1,736,602
Depreciation of property, plant and equipment	191,289	148,580
Amortization of intangible assets	442,229	286,906
Gain on disposal of property, plant and equipment	(4,393)	-
Exchange loss (gain)	149,118	(122,482)
Financial expenses (note 14a)	519,045	1,735,495
Restructuring fees (note 13)	661,505	-
	<b>12,440,484</b>	<b>10,076,882</b>
<b>Net loss and comprehensive loss for the year</b>	<b>1,830,081</b>	<b>4,834,372</b>
<b>Deficit - Beginning of year</b>	<b>32,511,593</b>	<b>27,677,221</b>
<b>Deficit - End of year</b>	<b>34,341,674</b>	<b>32,511,593</b>
<b>Basic and diluted net loss per share (note 2)</b>	<b>0.049</b>	<b>0.186</b>
<b>Basic and diluted weighted average number of shares outstanding</b>	<b>37,043,429</b>	<b>25,949,784</b>

<sup>†</sup> The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS<sup>†</sup>

### FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss for the year	(1,830,081)	(4,834,372)
Items not affecting cash and cash equivalents		
Interest capitalized on long-term debt	53,865	116,042
Unrealized exchange gain	(73,406)	(50,273)
Depreciation of property, plant and equipment	191,289	148,580
Amortization of intangible assets	442,229	286,906
Amortization of deferred financing expenses	67,074	276,426
Stock-based compensation costs	348,050	416,300
Compensation costs related to the deferred share unit plan for directors	261,871	117,338
Costs related to the employee stock purchase plan	45,437	14,656
Gain on disposal of property, plant and equipment	(4,393)	-
	<u>(498,065)</u>	<u>(3,508,397)</u>
Change in non-cash operating working capital items		
Accounts receivable	(2,891,514)	(2,091,810)
Refundable tax credits	(759,756)	194,230
Work in progress	(297,245)	(109,891)
Prepaid expenses	(144,615)	(57,539)
Balance receivable on the sale of software licenses	176,598	1,729
Accounts payable and accrued liabilities	59,590	499,322
Deferred revenues	448,789	326,459
	<u>(3,408,153)</u>	<u>(1,237,500)</u>
	<b><u>(3,906,218)</u></b>	<b><u>(4,745,897)</u></b>
<b>Cash flows from financing activities</b>		
Variation in bank loans	563,280	(248,952)
Due to directors	-	(26,295)
Long-term debt	-	1,300,000
Payments on long-term debt	(1,188,991)	(2,635,837)
Variation in deferred financing expenses	-	(92,213)
Issuance of warrants, net of issue expenses	736,577	-
Issuance of common shares, net of issue expenses	11,671,071	9,292,517
	<u>11,781,937</u>	<u>7,589,220</u>
<b>Cash flows from investing activities</b>		
Variation in term deposits	5,735	(337)
Variation in short-term restricted cash	1,859,799	(1,859,799)
Variation in balance receivable on the sale of software licenses	-	165,996
Business acquisitions, net of cash and cash equivalents	(48,390)	(534,230)
Additions to property, plant and equipment	(238,936)	(156,228)
Additions to intangible assets	(117,459)	(20,318)
Proceeds from the sale of property, plant and equipment	27,262	-
	<u>1,488,011</u>	<u>(2,404,916)</u>
<b>Increase in cash and cash equivalents</b>	<b>9,363,730</b>	<b>438,407</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>2,367,125</b>	<b>1,928,718</b>
<b>Cash and cash equivalents – End of year</b>	<b>11,730,855</b>	<b>2,367,125</b>
<b>Additional information (note 14b and c)</b>		

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

# Notes to Consolidated Financial Statements

## Note 1 - Statutes and nature of activities

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The Company, incorporated in January 2000 under Part 1A of the *Québec Companies Act*, develops and markets multilingual online publishing solutions dedicated to players in the media industry, such as newspapers, magazines and digital content providers. Nstein solutions generate new revenue sources and reduce operating costs by allowing mutualization, management and automated indexing of digital content. Nstein collaborates closely with its customers to implement winning strategies based on publishing industry best practices, which allow rapid implementation of its *Web Content Management*, *Digital Asset Management* and *Text Mining Engine* products.

## Note 2 - Summary of significant accounting policies

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### 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., Nstein Technologies Europe S.A., 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. These estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses. Significant estimates include the allowance for doubtful accounts receivable, the degree of progress of work in process, recoverable tax credits, the useful lives of property, plant and equipment and intangible assets, impairment of long-lived assets, certain accrued liabilities and measurement of financial instruments. Actual results may 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 arising 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 occur, indicating that it is more likely than not 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 fiscal years 2007 and 2006.

## Deferred financing expenses

Deferred financing expenses, which relate to the contracted debts and the granting of warrants, were 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 2007 and 2006, no impairment was recognized.

## 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 reasonably assured. Revenues from post-contract customer support elements are recognized rateably during 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, 2007 and 2006, 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 8. 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.

## Changes in accounting policies

Effective January 1, 2007, the Company adopted the new accounting standards of Section 1506, "Accounting Changes", Section 1530, "Comprehensive Income", Section 3251, "Equity", and Section 3855, "Financial Instruments – Recognition and Measurement", as well as Section 3861, "Financial Instruments – Disclosure and Presentation," of the Canadian Institute of Chartered Accountants (CICA) Handbook. The main changes in the new accounting standards are as follows:

## Accounting changes and comprehensive income

Section 1506 establishes the criteria for changing accounting policies, and the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors. Section 1530 introduces comprehensive income, which includes net income and the other components of comprehensive income. Comprehensive income is the change in a company's net assets during a period which results from transactions, events and circumstances from sources other than the company's shareholders. Consequently, Section 3250, "Surplus", has been revised as Section 3251, "Equity".

## Financial assets and liabilities

Section 3855 describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under these new standards, all financial instruments are now classified as one of the following: held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. Subsequent measurement is dependent upon the classification. Transaction fees related to held-for-trading financial instruments are reflected in earnings in the period in which they are incurred. For the other financial instruments, the Company has elected to capitalize transaction costs upon initial recognition and to present them with the related financial instruments. They are then amortized using the effective interest method.

Held-for-trading financial assets and liabilities are recognized at fair value, and gains and losses are recognized in net income. Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value or at cost if there are no published price quotations in an active market, and gains and losses are recognized in comprehensive income. Following the adoption of these new standards, the Company has classified its cash and cash equivalents and short-term restricted cash as held-for-trading financial assets. Term deposits, accounts receivable and work in progress are classified as loans and receivables. Bank loans, accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

The adoption of these new sections had no material effect on the consolidated financial statements of the Company.

## Future accounting changes

The CICA published the following new sections that will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007:

- a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- b) Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation".
- c) Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

The Company has not yet completed the assessment of the effect of these new standards on its consolidated financial statements, which will apply in the fiscal year beginning on January 1, 2008.

## 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. 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 value 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
<b>Total assets acquired</b>	<b>1,244,698</b>
Current liabilities	766,315
Long-term debt	47,991
<b>Total liabilities assumed</b>	<b>814,306</b>
Net identifiable assets acquired	430,392
Goodwill	474,698
<b>Purchase price</b>	<b>905,090</b>
Settled as follows:	
Common shares issued	329,676
Cash amount	502,698
Business combination-related costs	72,716
	<b>905,090</b>

## Note 4 – Property, plant and equipment

	Depreciation rates and period	2007		2006	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
		\$	\$	\$	\$
Office furniture and equipment	20%	263,365	175,931	250,189	156,763
Automotive equipment	20%	36,049	10,386	67,713	7,534
Computer equipment	35%	996,312	718,866	920,050	662,633
Leasehold improvements	5 years	401,804	307,490	290,175	245,295
Assets under a capital lease	35%	57,656	4,177	-	-
		<b>1,755,186</b>	<b>1,216,850</b>	<b>1,528,127</b>	<b>1,072,225</b>
Less: Accumulated depreciation		<u>1,216,850</u>		<u>1,072,225</u>	
<b>Net amount</b>		<b>538,336</b>		<b>455,902</b>	

## Note 5 – Intangible assets

	Amortization rates and period	2007		2006	
		Cost	Accumulated amortization	Cost	Accumulated amortization
		\$	\$	\$	\$
Software	50% and 10 years	882,323	321,967	823,904	222,723
Nstein software	50%	1,040,000	1,038,225	1,040,000	1,037,040
Core technology	4 years	886,857	653,556	886,857	505,729
Customer relationships	5 years	1,027,192	695,936	1,027,192	546,463
Non-compete agreements	2 years	317,507	273,007	317,507	228,507
		<b>4,153,879</b>	<b>2,982,691</b>	<b>4,095,460</b>	<b>2,540,462</b>
Less: Accumulated amortization		<u>2,982,691</u>		<u>2,540,462</u>	
<b>Net amount</b>		<b>1,171,188</b>		<b>1,554,998</b>	

## Note 6 – Bank loans

During the year, the Company contracted bank loans to finance a portion of its scientific research and experimental development tax credits. These loans, maturing in June 2008, bear interest at prime rate plus 1.50%. A moveable hypothec on the universality of present and future assets has been given as security for these loans.

## Note 7 - Long-term debt

	2007	2006
	\$	\$
<b>Term loans</b>		
- Discounted at 10%, payable in monthly instalments 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	440,083	499,343
- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in two instalments of \$95,000, in October 2006 and January 2007, and in quarterly instalments of \$47,500 from October 2007, maturing in September 2009	265,631	429,169
- Discounted at 8%, with the NRC, payable in four annual instalments of \$78,338, starting on January 1, 2007, maturing in January 2010	216,395	277,974
- 10%, for which a letter of credit in the amount of \$164,600 has been issued, payable in monthly instalments 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	56,446	68,586
- 4%, payable in monthly instalments of \$1,159 (€803) including principal and interest, maturing in September 2011. A moveable hypothec on two cars has been given as security	22,713	61,036
- Discounted at 7%, balance of purchase price of a subsidiary, payable in three annual instalments of \$192,000, maturing in September 2007	-	181,357
- Prime rate plus 2%, payable in monthly principal instalments 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
<b>Obligations under capital leases</b>		
- Discounted at 7.75%, payable in total monthly instalments of \$1,800 including principal and interest, maturing between August and November 2010.	54,561	-
<b>Secured convertible debentures</b>		
- Secured convertible debentures, non-interest bearing, issued at discount, payable in 19 monthly instalments of US\$223,125 from February 2006 to September 2006, US\$207,188 from October 2006 to July 2007 and a final instalment of US\$136,608 in August 2007*	-	1,560,014
	1,055,829	3,196,774
Less: Current portion	295,997	2,121,927
	759,832	1,074,847

\* During the year ended December 31, 2007, the Company issued, as a monthly principal and interest instalment on that debt, 1,016,091 common shares with a paid-up capital of \$793,090 and disbursed an amount of \$820,440. Furthermore, during the year, certain holders of convertible debentures converted an amount of \$200,988 into 236,366 common shares of the Company.

The principal instalments due on long-term debt over the next five years are as follows:

	Obligations under capital leases	Other debts
	\$	\$
2008	21,601	277,993
2009	21,601	305,453
2010	17,719	180,716
2011	-	104,001
2012	-	98,132
Subsequent years	-	34,972
	<u>60,921</u>	<u>1,001,267</u>
Less interest	<u>6,359</u>	
	<u>54,562</u>	

## Note 8 - 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, 2007 and 2006:

	2007		2006	
	Number	Amount	Number	Amount
		\$		\$
<b>Balance – Beginning of year (f)</b>	<b>33,303,337</b>	<b>40,178,085</b>	<b>18,642,229</b>	<b>29,534,130</b>
Shares issued upon the exercise of stock options	15,000	9,998	-	-
Shares issued under the employee stock purchase plan (d)	102,256	90,875	69,220	29,312
Business combination (note 3)	-	-	1,013,152	329,676
Shares issued for cash, net of issue expenses (b, c and e)	6,452,486	4,125,550	11,764,706	9,077,702
Special warrants issued, net of issue expenses (a)	-	7,253,689	-	-
Shares issued for long-term debt repayment and conversion (note 7)	1,252,457	994,078	1,814,030	1,207,265
<b>Outstanding – End of year</b>	<b>41,125,536</b>	<b>52,652,275</b>	<b>33,303,337</b>	<b>40,178,085</b>

a) On November 30, 2007, the Company concluded a firm underwriting private placement of 8,000,000 special warrants of the Company at a price of \$1.00 per special warrant, for a gross total amount of \$8,000,000 (the "Offering"). The Offering was made through an underwriting syndicate led by Desjardins Securities Inc. and including TD Securities Inc. and Jennings Capital Inc. collectively (the "Underwriters"). Certain Company insiders subscribed for the placement. Each special warrant entitles the holder thereof to receive one common share of the Company upon exercising the special warrants. The special warrants are exercisable by the holder in whole or in part at any time after the closing of the Offering, being November 30, 2007 (the "Closing"), without any additional consideration, and the special warrants will be deemed to be exercised on the earlier of: (a) four (4) months and one day after the Closing and (b) the day which is three business days after a receipt is issued by the Canadian securities regulatory authorities for a final prospectus qualifying the common shares to be issued upon the exercise of the special warrants. The Company obtained such receipt on February 7, 2008 (Note 19). The Underwriters received as compensation at Closing a commission of \$354,000 and 354,000 warrants, each of these warrants entitling its holder to acquire one common share at the price of \$1.00 for a period of two (2) years after Closing. Issue expenses of \$577,356 (including the Underwriters' commission expense) and the fair value of the warrants granted to the Underwriters, being \$168,955, were applied against equity.

b) On September 27, 2007, the Company issued 3,529,412 units at a price of \$0.85 each, for gross proceeds of \$3,000,000, as part of a private placement with an institutional investor and a group of 27 employees of the Company, along with other investors. Each unit consists of one common share, one-half of one A-tranche share purchase warrant and one-half of one B-tranche share purchase warrant. One whole A-tranche share purchase warrant entitles its holder to purchase one additional common share of the Company's share capital at a price of \$1.50. One whole B-tranche share purchase warrant entitles its holder to purchase one additional common share of the Company's share

capital at a price of \$2.00. These share purchase warrants are valid for three years from the date of issue. The \$3,000,000 in gross proceeds was divided up between common shares and warrants based on their relative fair values. Accordingly, an amount of \$2,258,846 was allocated to common shares and \$741,154 to warrants. Unit issue expenses totalling respectively \$13,950 and \$4,577 were applied against the share capital and other equity components. Shares issued are subject to a four-month hold period.

c) On May 7, 2007, the Company concluded a private placement of \$1,900,000 with a group of investors including members of the Board of Directors and the Company's management team. The Company issued 2,923,074 common shares at a price of \$0.65 per share. Share issue expenses in the amount of \$19,346 were applied against share capital.

d) 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.

e) 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' commission fee) were applied against share capital. The fair value of the warrants granted to Desjardins, set at \$200,159, was also applied against share capital.

f) 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. Comparative figures from the beginning of fiscal 2006 have been adjusted to reflect the consolidation.

## Stock options

### Under the plan

In August 2006, the Company amended the stock option plan for directors, employees and service suppliers of the Company or its subsidiaries. All the options granted under the plan may from now on be exercised within a maximum period of 7 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 following tables present the stock option activity since January 1, 2006 and summarize information about fixed stock options outstanding and exercisable as at December 31:

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
<b>Outstanding – Beginning of year</b>	<b>2,408,203</b>	<b>1.76</b>	<b>1,477,120</b>	<b>2.87</b>
Granted	1,390,000	0.79	1,140,000	0.42
Exercised	(15,000)	0.40	-	-
Cancelled	(839,917)	2.22	(208,917)	2.35
<b>Outstanding – End of year</b>	<b>2,943,286</b>	<b>1.17</b>	<b>2,408,203</b>	<b>1.76</b>
<b>Exercisable – End of year</b>	<b>1,519,079</b>	<b>1.53</b>	<b>1,006,545</b>	<b>2.94</b>

	Options outstanding as at December 31, 2007		Options exercisable as at December 31, 2007	
Exercise price	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life
\$0.37	92,083	3.95	54,167	3.95
\$0.40	350,000	3.73	212,500	3.73
\$0.44	110,000	3.86	89,583	3.86
\$0.46	75,000	3.65	30,000	3.65
\$0.65	600,000	4.28	150,000	4.28
\$0.69	175,000	4.48	43,750	4.48
\$0.73	150,000	4.34	37,500	4.34
\$0.80	80,000	4.21	26,667	4.21
\$1.00	203,500	3.46	90,167	2.32
\$1.12	250,000	4.76	29,167	4.72
\$1.20	190,000	2.96	120,000	2.96
\$1.40	120,000	0.90	120,000	0.90
\$2.00	133,333	2.38	133,333	2.38
\$2.10	50,000	1.82	37,500	1.82
\$2.15	50,000	2.17	50,000	2.17
\$2.80	201,000	1.92	181,375	1.92
\$3.00	86,090	1.19	86,090	1.19
\$10.00	5,000	2.45	5,000	2.45
\$11.00	20,280	0.45	20,280	0.45
\$29.70	2,000	2.45	2,000	2.45
	<b>2,943,286</b>		<b>1,519,079</b>	

### Accounting for stock-based compensation plans

During the year ended December 31, 2007, the Company granted its employees and service suppliers 1,390,000 stock options (1,140,000 in 2006). The fair value of these stock options amounts to \$737,399 (\$313,209 in 2006). Compensation costs for the year ended December 31, 2007 amounted to \$348,050 (\$416,300 in 2006).

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:

	2007	2006
Risk-free interest rate	4.21%	4.06%
Expected volatility	82%	80%
Dividend yield	nil	nil
Expected life	59 months	59 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, 2007 and 2006:

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
<b>Outstanding – Beginning of year</b>	<b>2,188,939</b>	<b>1.44</b>	<b>1,935,998</b>	<b>1.79</b>
Granted*	3,883,412	1.68	352,941	0.85
Cancelled**	(469,133)	1.40	(100,000)	5.00
<b>Outstanding – End of year</b>	<b>5,603,218</b>	<b>1.63</b>	<b>2,188,939</b>	<b>1.44</b>

\* On September 27, 2007, the Company issued 1,764,705 A-tranche warrants and 1,764,707 B-tranche warrants to the investors, allowing acquisition of common shares at the respective prices of \$1.50 and \$2.00 per share during a period of three years. The fair value of the warrants granted was estimated at \$736,577 (net of issue expenses of \$4,577) using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	4.23%
Expected volatility	83.5%
Dividend yield	nil
Expected life	36 months

\* On November 30, 2007, the Company issued 354,000 warrants to the investors, allowing acquisition of common shares at the price of \$1.00 per share during a period of two years. The fair value of the warrants granted was estimated at \$168,955 using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	3.73%
Expected volatility	86.0%
Dividend yield	nil
Expected life	24 months

\* On June 13, 2006, the Company issued 352,941 warrants to Desjardins, allowing acquisition of common shares at the price of \$0.85 per share during a period of five years. The fair value of the warrants granted was estimated at \$200,159 using the Black-Scholes method based on the following assumptions:

Risk-free interest rate	4.22%
Expected volatility	80.0%
Dividend yield	nil
Expected life	5 years

\*\* In October 2007, 469,133 warrants expired (100,000 in June 2006). The fair value of these warrants in the amount of \$306,794 (\$92,245 in 2006) was transferred to the contributed surplus.

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

	2007	2006
	\$	\$
204,190 warrants at \$1.527, maturing on October 12, 2007	-	54,167
264,943 warrants at \$1.30, maturing on October 13, 2007	-	252,627
200,000 warrants at \$1.00, maturing on November 28, 2008	204,545	204,545
354,000 warrants at \$1.00 (none in 2006), maturing on November 7, 2009	168,955	-
1,764,705 warrants at \$1.50 (none in 2006), maturing on September 27, 2010	404,181	-
1,764,707 warrants at \$2.00 (none in 2006), maturing on September 27, 2010	332,396	-
1,166,865 warrants at \$1.80, maturing on October 12, 2010	383,538	383,538
352,941 warrants at \$0.85, maturing on June 12, 2011	200,159	200,159
	1,693,774	1,095,036

## Note 9 - Other equity components

The following table presents the other equity components activity during the years ended December 31, 2007 and 2006:

	2007	2006
	\$	\$
<b>Balance - Beginning of year</b>	<b>2,269,836</b>	<b>2,160,640</b>
Expiry of a long-term debt conversion option	(150,412)	(240,068)
Reversal of the long-term debt conversion option upon exercise of the option	(4,009)	(41,997)
Expiry of the stock option related to a business combination	(108,589)	(91,313)
Issuance of warrants	905,532	200,159
Expiry of warrants	(306,794)	(92,245)
Stock-based compensation costs	348,050	416,300
Reversal of stock options granted as compensation following employee departure	(126,059)	(41,640)
Reversal of stock options granted as compensation upon exercise of options	(3,997)	-
<b>Balance - End of year</b>	<b>2,823,558</b>	<b>2,269,836</b>

The following table presents the other equity components as at December 31, 2007 and 2006:

	2007	2006
	\$	\$
Long-term debt conversion option	-	154,421
Stock option related to a business combination	-	108,589
Stock option-based compensation	1,129,784	911,790
Warrants (note 8)	1,693,774	1,095,036
	<b>2,823,558</b>	<b>2,269,836</b>

## Note 10 - Contributed surplus

The following table presents the contributed surplus activity during the years ended December 31, 2007 and 2006:

	2007	2006
	\$	\$
<b>Balance - Beginning of year</b>	<b>532,143</b>	<b>66,877</b>
Expiry of a long-term debt conversion option (note 9)	150,412	240,068
Expiry of the stock option related to a business combination (note 9)	108,589	91,313
Expiry of warrants (note 9)	306,794	92,245
Reversal of stock options granted as compensation following employee departure (note 9)	126,059	41,640
<b>Balance - End of year</b>	<b>1,223,997</b>	<b>532,143</b>

The following table presents the contributed surplus components as at December 31, 2007 and 2006:

	2007	2006
	\$	\$
Expiry of a long-term debt conversion option	390,480	240,068
Expiry of the stock option related to a business combination	266,779	158,190
Expiry of warrants	399,039	92,245
Reversal of stock options granted as compensation following employee departure	167,699	41,640
	<b>1,223,997</b>	<b>532,143</b>

## Note 11 – Commitments

The Company's aggregate commitments under lease agreements for offices are \$2,679,457. Furthermore, the Company agreed to pay royalties of \$262,500 on revenues of software licenses. The minimum annual instalments to be paid over the next five years are established as follows:

	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Use of offices	647,017	652,966	659,092	462,292	60,361
Royalties on revenues of software licenses	262,500	-	-	-	-

## Note 12 – 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 a maximum of \$15,000 per employee. Those tax credits, which were applied against the cost of sales, amounted to \$202,476 for fiscal 2007 (\$94,026 in 2006).

The Company also benefits from scientific research and experimental development tax credits. These tax credits stood at \$619,935 for fiscal 2007 (\$420,991 in 2006).

## Note 13 – Restructuring fees

During the year, the Company incurred an expense of \$661,505 for non-recurring restructuring fees. These fees consist mainly of the severance and other payroll benefits paid to former corporate executives and a founder.

## Note 14 - Additional information

### Statement of earnings

#### a) Financial expenses

	2007	2006
	\$	\$
Amortization of deferred financing expenses	67,074	276,426
Interest on long-term debt*	509,542	1,490,579
Interest and bank charges	67,520	52,394
Interest income	(125,091)	(83,904)
Total	519,045	1,735,495

\* Including capitalized interest of \$53,865 (\$116,042 in 2006)

## Statement of cash flows

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

	2007	2006
	\$	\$
Warrants issued	168,955	200,159
Convertible debentures converted into common shares	994,078	1,165,268
Business combination-related costs included in accounts payable and accrued liabilities	-	48,390
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	259,001	331,381
Transfer of matured warrants to the contributed surplus	306,794	92,245
Converted portion of the long-term debt conversion options transferred to share capital	4,009	41,997
Stock options granted as compensation transferred to the contributed surplus	126,059	41,640
Stock options exercised as compensation transferred to share capital	3,997	-
Issue expenses included in accounts payable and accrued liabilities	71,438	-
Assets under a capital lease	57,656	-

### c) Additional information

	2007	2006
	\$	\$
Interest paid	411,085	1,308,539
Interest cashed	(72,332)	(56,390)

## Note 15 – 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, the amount owed to directors 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 and work in progress.....	Non-interest bearing
Bank loans.....	As described in note 6
Accounts payable and accrued liabilities.....	Non-interest bearing
Amount owed to directors.....	Non-interest bearing
Long-term debt.....	As described in note 7

## 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, Euros and Sterling pounds. These risks are partially hedged by purchases and operating expenses denominated in these foreign currencies.

## Note 16 – 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:

	2007	2006
	\$	\$
Income tax provision at combined Canadian federal and provincial statutory tax rate (32.02% in 2007 and 32.02% in 2006)	(590,000)	(1,550,000)
Increase (decrease) due to:		
Variation in valuation allowance	(2,660,000)	(2,820,000)
Expiry of tax losses	850,000	2,860,000
Difference between statutory and future income tax rates	2,440,000	1,100,000
Variation in foreign currency deferred losses resulting from the Canadian dollar's appreciation	280,000	(70,000)
Future income tax asset related to share capital components	(170,000)	-
Non-deductible expenses or non-taxable revenues	160,000	200,000
Others	(310,000)	280,000
	-	-

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

	2007	2006
	\$	\$
Future income tax assets		
Property, plant and equipment	1,130,000	1,410,000
Intangible assets	1,030,000	980,000
Research and development	5,410,000	5,600,000
Financing expenses	200,000	130,000
Others	420,000	80,000
Deferred losses	10,820,000	13,520,000
	19,010,000	21,720,000
Valuation allowance	(18,930,000)	(21,590,000)
	80,000	130,000
Future income tax liabilities		
Research and development tax credits	(80,000)	(130,000)
Net future income tax assets	-	-

As at December 31, 2007, the Company had available operating losses in several tax jurisdictions, against which a valuation allowance of \$10,740,000 (\$13,430,000 in 2006) was established. The following table summarizes the year of expiry of these operating losses by tax jurisdiction:

Year of expiry	Canada		United States and Other
	Federal \$	Provincial \$	
2008	11,310,000	9,980,000	-
2009	7,530,000	7,230,000	-
2010	3,850,000	3,580,000	-
2011	4,010,000	3,960,000	-
2014	1,960,000	1,830,000	-
2015	-	-	-
2019	-	-	40,000
2020	-	-	90,000
2021	-	-	120,000
2022	-	-	1,620,000
2023	-	-	680,000
2024	-	-	820,000
2025	-	-	590,000
2026	3,760,000	3,350,000	-
2027	1,430,000	1,430,000	-
Indefinite	-	-	1,780,000
	33,850,000	31,360,000	5,740,000

During the year, losses of \$2,480,913 at the federal level (\$8,508,685 in 2006) and \$4,054,309 at the provincial level (\$8,965,133 in 2006) expired.

In addition, a Company's subsidiary has accumulated capital losses of \$590,000 (\$590,000 in 2006) at the federal and provincial levels, against which a valuation allowance of \$80,000 (\$90,000 in 2006) was established. These losses can be carried forward indefinitely against future capital gains.

In addition to the operating losses, as at December 31, 2007, the Company has accumulated research and development expenses in Canada amounting to \$13,930,000 (\$13,260,000 in 2006) at the federal level and \$27,900,000 (\$25,850,000 in 2006) at the provincial level, against which a valuation allowance of \$5,410,000 (\$5,600,000 in 2006) was established. These expenses can be carried forward indefinitely against future years' taxable income in their respective tax jurisdiction. Also, investment tax credits of \$2,380,000 (\$2,000,000 in 2006) at the federal level can be applied against income taxes of future years expiring between 2008 and 2027.

Finally, the difference between the carrying amounts and tax bases of some assets and liabilities has created a deductible timing difference of \$10,190,000 (\$8,260,000 in 2006) at the federal level and \$10,590,000 (\$8,650,000 in 2006) at the provincial level.

## Note 17 - Segment information

The Company's activities are grouped 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:

	2007	2006
	\$	\$
Canada	10,704,469	6,666,852
United States	4,066,218	2,014,001
Europe	3,401,171	2,036,458
Total	18,171,858	10,717,311

Revenues are allocated to geographic regions based on the country of residence of the related customers.

## Note 18 – Related party transactions

During the year, the Company recognized an expense of \$261,871 as administration expenses for compensation of the deferred share unit plan for directors. This transaction was measured at the exchange value corresponding to the monetary consideration agreed to by the parties. The amount owed to directors in relation to this plan as at December 31, 2007 is \$513,018 (\$251,147 as at December 31, 2006).

## Note 19 – Contingency

The Company and an educational institution are jointly facing a lawsuit for \$885,000. In addition, a US\$500,000 lawsuit was recently served on the Company. Management believes that these lawsuits are unfounded; accordingly, no provision has been recorded in this respect.

## Note 20 – Subsequent events

On February 7, 2008, the Company obtained confirmation from the Autorité des marchés financiers du Québec that a receipt had been issued for the Company's final simplified prospectus by the British Columbia, Alberta, Ontario and Quebec authorities. Consequently, the special warrants issued by the Company on November 30, 2007 were deemed to be exercised on February 13, 2008, three business days after obtaining the aforementioned receipt. On the same day, the Company thus proceeded to issue 8,000,000 common shares to the special warrant holders. (Note 8f)

On February 13, 2008, the Company acquired all of the outstanding shares of Picdar Group Ltd ("Picdar"), a digital asset and image management solutions provider in the United Kingdom (the "Transaction") for a purchase price equivalent to the sum of (i) the business value of the company established between \$6,595,000 and \$9,245,000 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,545,000 (£2,325,500). An amount of \$6,595,000 (£3,375,000) was paid upon closing of the transaction and the balance of the value of the company, up to \$2,650,000 (£1,355,625), is payable in annual instalments beginning March 31, 2008 based on the achievement of the target future revenues and EBITDA.

Each instalment is composed of a 75% portion in cash and cash equivalents and 25% in newly issued shares of the Company at a unit price fixed according to the weighted average price of the Company's last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. The surplus working capital is payable in cash and cash equivalents, a first instalment of \$3,409,000 (£1,744,105) having been paid upon closing of the transaction and the balance being payable upon receipt of the closing financial statements. On February 13, 2008, the Company proceeded to issue 1,835,480 common shares in initial payment of the purchase price. The issued shares are subject to escrow conditions and will be released quarterly over a period of twenty-four (24) months.