

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.

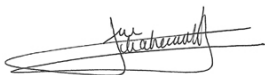
Nstein's policy is to maintain a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and that our assets are appropriately accounted for and adequately safeguarded.

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.

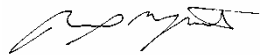
The Audit Committee is appointed by the Board and is composed of outside directors. The Committee meets periodically with Management and external auditors to review accounting, auditing and internal control procedures.

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.



Luc Filiatreault
President and Chief Executive Officer



Bruno Martel
Chief Financial Officer

Montreal, Quebec, Canada
March 18, 2009

Auditors' Report

To the Shareholders of
Nstein Technologies Inc.

We have audited the consolidated balance sheets of **Nstein Technologies Inc.** as at December 31, 2008 and 2007 and the consolidated statements of earnings and deficit, shareholders' equity 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers s.r.l./s.e.n.c.r.l.¹

Quebec, Quebec, Canada

March 18, 2009

¹ Chartered accountant auditor permit No. 7451

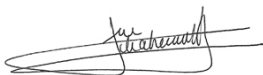
“PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

**CONSOLIDATED BALANCE SHEETS †
AS AT DECEMBER 31, 2008 AND 2007**

	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	7,405,217	11,730,855
Term deposits (note 7)	214,600	185,386
Accounts receivable	6,864,825	7,081,392
Refundable tax credits	984,478	1,540,023
Income taxes recoverable	335,656	-
Work in progress	680,639	875,350
Prepaid expenses	207,389	330,150
	16,692,804	21,743,156
Property, plant and equipment (note 4)	736,506	538,336
Intangible assets (note 5)	3,364,257	1,171,188
Goodwill (note 3)	10,496,905	5,641,574
	31,290,472	29,094,254
Liabilities		
Current liabilities		
Bank loans (note 6)	-	563,280
Accounts payable and accrued liabilities	4,442,361	4,012,304
Deferred revenues	3,236,640	1,104,685
Future income tax liabilities (note 17)	150,315	-
Current portion of long-term debt (note 7)	330,503	295,997
	8,159,819	5,976,266
Long-term debt (note 7)	520,799	759,832
Future income tax liabilities (note 17)	571,071	-
	9,251,689	6,736,098
Shareholders' Equity		
Share capital (note 8)	54,028,128	52,652,275
Other equity components (note 9)	2,695,998	2,823,558
Contributed surplus (note 10)	1,805,717	1,223,997
Deficit	(36,491,060)	(34,341,674)
	22,038,783	22,358,156
	31,290,472	29,094,254
Commitments (note 11)		
Contingency (note 19)		
Subsequent event (note 20)		

† 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 SHAREHOLDERS' EQUITY[†]
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Share capital		Other equity components	Contributed surplus	Deficit	Total shareholders' equity
	Common shares					
	Number	\$	\$	\$	\$	\$
Balance as at December 31, 2006	33,303,337	40,178,085	2,269,836	532,143	(32,511,593)	10,468,471
Shares issued upon the exercise of stock options	15,000	9,998	(3,997)	-	-	6,001
Shares issued under the employee stock purchase plan	102,256	90,875	-	-	-	90,875
Shares issued for cash, net of issue expenses (note 8b and c)	6,452,486	4,125,550	-	-	-	4,125,550
Special warrants issued for cash, net of issue expenses (note 8 a)	-	7,253,689	-	-	-	7,253,689
Shares issued for long-term debt repayment and conversion	1,252,457	994,078	(4,009)	-	-	990,069
Expiry of a long-term debt conversion option	-	-	(150,412)	150,412	-	-
Expiry of the stock option related to a business combination	-	-	(108,589)	108,589	-	-
Reversal of stock options granted as compensation following employee departure	-	-	(126,059)	126,059	-	-
Expiry of warrants (note 8)	-	-	(306,794)	306,794	-	-
Issuance of warrants (note 8)	-	-	905,532	-	-	905,532
Stock-based compensation costs	-	-	348,050	-	-	348,050
Net loss and comprehensive loss for the year	-	-	-	-	(1,830,081)	(1,830,081)
Balance as at December 31, 2007	41,125,536	52,652,275	2,823,558	1,223,997	(34,341,674)	22,358,156
Shares issued upon the exercise of stock options	126,667	87,291	(35,003)	-	-	52,288
Shares issued under the employee stock purchase plan	287,230	170,253	-	-	-	170,253
Shares issued upon the exercise of special warrants, net of issue expenses (note 8)	8,000,000	(161,172)	-	-	-	(161,172)
Issuance of shares related to business combination (note 3)	2,026,624	1,279,481	-	-	-	1,279,481
Reversal of stock options granted as compensation following employee departure	-	-	(377,175)	377,175	-	-
Expiry of warrants (note 8)	-	-	(204,545)	204,545	-	-
Stock-based compensation costs	-	-	489,163	-	-	489,163
Net loss and comprehensive loss for the year	-	-	-	-	(2,149,386)	(2,149,386)
Balance as at December 31, 2008	51,566,057	54,028,128	2,695,998	1,805,717	(36,491,060)	22,038,783

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

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT †
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
	\$	\$
Revenues (note 18)	25,712,336	18,171,858
Cost of sales, net of tax credits (note 12)	10,718,676	7,561,455
	14,993,660	10,610,403
Expenses		
Selling and administrative	13,054,784	8,228,963
Research and development, net of tax credits (note 12)	3,586,831	2,248,335
Depreciation of property, plant and equipment	314,439	191,289
Amortization of intangible assets	891,168	442,229
Exchange loss (gain)	(518,116)	149,118
Financial expenses (revenues) (note 14a)	(126,902)	519,045
Restructuring fees (note 13)	419,156	661,505
	17,621,360	12,440,484
Loss before income taxes	2,627,700	1,830,081
Income tax recovery		
Income taxes recovered	(346,791)	-
Future income taxes	(131,523)	-
	(478,314)	-
Net loss and comprehensive loss for the year	2,149,386	1,830,081
Deficit - Beginning of year	34,341,674	32,511,593
Deficit - End of year	36,491,060	34,341,674
Basic and diluted net loss per share (note 2)	0.043	0.049
Basic and diluted weighted average number of shares outstanding	50,085,716	37,043,429

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
	\$	\$
Cash flows from operating activities		
Net loss for the year	(2,149,386)	(1,830,081)
Items not affecting cash and cash equivalents		
Interest capitalized on long-term debt	27,339	53,865
Unrealized exchange loss (gain)	13,564	(73,406)
Depreciation of property, plant and equipment	314,439	191,289
Amortization of intangible assets	891,168	442,229
Gain on disposal of property, plant and equipment	-	(4,393)
Amortization of deferred financing expenses	-	67,074
Stock-based compensation costs	489,163	348,050
Compensation costs related to the deferred share unit plan for directors	46,691	261,871
Costs related to the employee stock purchase plan	85,127	45,437
Future income taxes	(131,523)	-
	(413,418)	(498,065)
Change in non-cash operating working capital items		
Accounts receivable	1,348,345	(2,714,916)
Refundable tax credits	555,545	(759,756)
Income taxes recoverable	(335,656)	-
Work in progress	194,711	(297,245)
Prepaid expenses	206,446	(144,615)
Accounts payable and accrued liabilities	(730,318)	59,590
Deferred revenues	563,154	448,789
	1,802,227	(3,408,153)
	1,388,809	(3,906,218)
Cash flows from financing activities		
Variation in bank loans	(563,280)	563,280
Payments on long-term debt	(405,607)	(1,188,991)
Payment on balance of purchase price of a subsidiary (note 3)	(1,585,624)	-
Issuance of warrants, net of issue expenses	-	736,577
Issuance of common shares, net of issue expenses	(95,196)	11,671,071
	(2,649,707)	11,781,937
Cash flows from investing activities		
Variation in term deposits	(29,214)	5,735
Variation in short-term restricted cash	-	1,859,799
Business acquisitions, net of cash and cash equivalents	(2,790,291)	(48,390)
Additions to property, plant and equipment	(207,101)	(238,936)
Additions to intangible assets	(38,134)	(117,459)
Proceeds from the disposal of property, plant and equipment	-	27,262
	(3,064,740)	1,488,011
Increase (decrease) in cash and cash equivalents	(4,325,638)	9,363,730
Cash and cash equivalents – Beginning of year	11,730,855	2,367,125
Cash and cash equivalents – End of year	7,405,217	11,730,855
Additional information (note 14b and c)		

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

Notes to Consolidated Financial Statements

Note 1 - Statutes and nature of activities

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 centralization, 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, Text Mining Engine and Picture Management Desk products.

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., Nstein Technologies France S.A.S.U., KMTechnologies inc., Alis Technologies inc., Cabinet Conseil Valsar inc. and Picdar Group Ltd.

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 based on available discounted cash flows. 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 2008 and 2007.

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 2008 and 2007, 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 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, 2008 and 2007, the diluted net loss per share was the same as the basic net loss per share since the dilutive effect of stock options and warrants 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

Stock option plan

As described in note 9, the Company offers a stock option plan for directors, employees and service suppliers to the Company or its subsidiaries. The Company uses the fair value-based method for stock options granted to employees and non-employees. The fair value of stock options is determined using the Black and Scholes options valuation model, and stock-based compensation costs are amortized to expenses over the vesting periods and credited to other equity components.

Employee stock purchase plan

As described in note 9, the Company offers a stock purchase plan to its employees. The contribution the Company makes on behalf of employees is recognized as a compensation charge and a compensatory amount is charged to the share capital. Any consideration paid by employees upon the purchase of shares is also credited to the share capital.

Deferred stock unit plan for directors

As described in note 9, the Company offers a deferred stock unit plan to directors who are not employees. The number of deferred stock units issued is calculated by dividing the applicable amount of the compensation by the weighted average price of the Company's shares during the last five trading days before the issuance date. This amount, as well as subsequent changes in the stock price, are recorded as compensation costs and included in selling and administrative expenses.

Financial instruments

Pursuant to the standards of Section 3855 "Financial Instruments – Recognition and Measurement," all financial instruments must be classified in one of the following categories: held for trading, held to maturity, available for sale, loans and receivables or other financial liabilities. Their measurement in later periods reflects their category.

Transaction costs related to financial instruments held for trading are recognized in the earnings of the period in which they are incurred. For the other financial instruments, the Company has chosen to capitalize the transaction costs upon initial recognition and present them with the related financial instruments. They are then amortized using the effective interest rate method. Financial assets and liabilities held for trading are recognized at fair value, and variations are recorded in net earnings. Financial assets and liabilities held until maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Financial assets available for sale are measured at fair value or at cost if there are not published prices on an active market, and variations are recognized in the comprehensive income.

The Company has classified its cash and cash equivalents and term deposits as held for trading. Receivables and work in progress are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

Changes in accounting policies

Effective January 1, 2008, the Company has adopted the new accounting standards under Section 1400 "General Standards of Financial Statement Presentation," Section 1535 "Capital Disclosures," Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" of the Canadian Institute of Chartered Accountants (CICA) Handbook. The main changes in these new accounting standards are summarized as follows:

General standards of financial statement presentation

The CICA amended Section 1400 of the CICA Handbook, "General Standards of Financial Statement Presentation", to include a requirement whereby management shall make an assessment of an entity's ability to continue as a going concern when preparing financial statements. These changes, including the related disclosure requirements, came into effect on January 1, 2008 and did not impact the Company's financial statements.

Capital disclosures

Section 1535 "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. The section describes the standards for disclosing information about objectives, policies and processes for managing capital of the entity and 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.

Financial instruments

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure 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. 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".

Future Accounting Changes

Goodwill and intangible assets

In February 2008, the CICA published Section 3064 "Goodwill and Intangible Assets," defining the standards for the recognition, measurement, presentation and disclosure applicable to goodwill and intangible assets following their initial recognition. The new section will replace Section 3062 "Goodwill and Other Intangible Assets," and Section 3450 "Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for reasons of consistency. The new standards apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

Other future accounting changes

In January 2009, the CICA issued sections 1582 "Business Combinations," 1601 "Consolidated Financial Statements," and 1602 "Non-Controlling Interests."

Section 1582 will be converged with IFRS 3, "Business Combinations." Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements," concerning non-controlling interests. Finally, Section 1601 will carry forwards the requirements of Section 1600 "Consolidated Financial Statements," other than those affecting non-controlling interests.

Section 1582 applies to operations where the purchaser obtains control of one or more businesses. The term "business" is more broadly defined in the current standard. Most assets acquired and liabilities assumed, including contingent liabilities considered "improbable," will be measured at their fair value. Acquisition costs must be expensed.

Pursuant to Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. The calculation of net earnings does not show any deduction for non-controlling interests. Instead, net earnings will be allocated between controlling and non-controlling interests.

The new standards will come into force in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Harmonization of Canadian and international standards

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP, for publicly accountable enterprises, will be converged with the International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board ("IASB"). The Company will have to present its interim and annual financial statements for fiscal 2011 according to IFRS.

The Company has developed a changing plan for conversion to these new standards according to the timetable set for these new rules. The implementation plan includes three main phases, i.e. initial assessment of impacts and definition of their scope, analysis of the repercussions and design, implementation and review.

In its preliminary comparative analysis of IFRS and Canadian GAAP, the Company detected numerous differences. At this time, the impacts on the financial position and future operating results cannot be established or estimated in a reasonable way. In 2009, the Company will continue its review of standards applicable to Nstein and assess these impacts.

The Company will present its results of fiscal 2010 according to the Canadian GAAP in force. In 2011, it will present the corresponding figures for fiscal 2010 in accordance with IFRS of the IASB then in force. As a result, the Company will maintain two parallel sets of accounts in 2010.

Comparative figures

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

Note 3 – Business combination

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 value of the company established between \$6,617,700 and \$9,275,810 (between £3,375,000 and £4,730,625) and (ii) the surplus working capital estimated at closing at \$4,472,255 (£2,280,832).

An amount of \$6,617,700 (£3,375,000) was paid upon closing of the Transaction and the balance of the value of the company, up to \$2,658,110 (£1,355,625), is payable in three 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 set according to the weighted average price of the Company’s last 20 trading days on the TSX Venture Exchange immediately preceding each payment date. On February 13, 2008, the Company issued 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.

The surplus working capital is payable in cash and cash equivalents, a first instalment of \$3,419,841 (£1,744,105) having been paid upon closing of the Transaction and the balance of \$1,052,414 (£536,727) having been paid on receipt of the closing financial statements in April 2008. In July 2008, the company settled the first annual instalment of the purchase price through the issuance of 191,144 common shares with a carrying value of \$121,580 and a cash payment of \$533,210 (£265,781).

At the purchase date, this acquisition has been accounted for using the purchase method, and the results have been consolidated from the acquisition date. The portion of the purchase price paid in shares has been reduced by an average discount of 30% 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. With the exception of the first conditional payment, which was estimated at \$642,724 \$ (£327,786), two other conditional payments were not recorded because it is impossible to establish beyond reasonable doubt that the necessary conditions for the payment of additional consideration will be met.

The following table summarizes the purchase price allocation, established with the help of independent experts, 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	6,128,584
Other current assets	1,215,463
Property, plant and equipment	165,780
Intangible assets	
Core technology	2,254,920
Backlog	32,353
Customer relationships	656,868
Non-compete agreements	101,962
Total assets acquired	10,555,930
Current liabilities	2,425,712
Future income tax liabilities	852,909
Long-term debt	24,500
Total liabilities assumed	3,303,121
Net identifiable assets acquired	7,252,809
Goodwill	4,855,331
Purchase price	12,108,140
Settled as follows:	
Common shares issued	1,157,901
Cash amount	8,392,988
Balance of purchase price	1,695,137
Business combination-related costs	862,114
	12,108,140

Note 4 – Property, plant and equipment

	Depreciation rates and period	2008		2007	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
		\$	\$	\$	\$
Office furniture and equipment	20%	557,801	425,003	263,365	175,931
Automotive equipment	20%	166,327	81,877	36,049	10,386
Computer equipment	35%	2,161,626	1,869,142	996,312	718,866
Leasehold improvements	5 years	496,336	423,041	401,804	307,490
Assets under a capital lease	35%	197,386	43,907	57,656	4,177
		3,579,476	2,842,970	1,755,186	1,216,850
Less: Accumulated depreciation		<u>2,842,970</u>		<u>1,216,850</u>	
Net amount		736,506		538,336	

Note 5 – Intangible assets

	Amortization rates and period	2008		2007	
		Cost	Accumulated amortization	Cost	Accumulated amortization
		\$	\$	\$	\$
Software	50% and 10 years	879,910	390,371	882,323	321,967
Nstein software	50%	1,040,000	1,038,934	1,040,000	1,038,225
Core technology	4 years and 7 years	3,141,777	1,053,222	886,857	653,556
Backlog	1 year	32,353	28,309	-	-
Customer relationships	5 years	1,684,060	960,361	1,027,192	695,936
Non-compete agreements	2 years	419,469	362,115	317,507	273,007
		7,197,569	3,833,312	4,153,879	2,982,691
Less: Accumulated amortization		<u>3,833,312</u>		<u>2,982,691</u>	
Net amount		3,364,257		1,171,188	

Note 6 – Bank loans

In 2007, the Company contracted bank loans to finance a portion of its scientific research and experimental development tax credits. These loans, bearing interest at prime plus 1.50%, were reimbursed in December 2008 when the Company was paid its tax credits. A moveable hypothec on all of the present and future assets had been given to secure these loans.

Note 7 – Long-term debt

	2008	2007
	\$	\$
Term loans		
- 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 a subsidiary, has been given as security	374,531	440,083
- Discounted at 8%, with the National Research Council of Canada ("NRC"), payable in quarterly instalments of \$47,500 from October 2007, maturing in July 2009	91,210	265,631
- Discounted at 8%, with the NRC, payable in four annual instalments of \$78,338, starting on January 1, 2007, maturing in January 2010	149,764	216,395
- 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	43,035	56,446
- 4%, payable in monthly instalments of \$667 (€392) including principal and interest, maturing in June 2011. A moveable hypothec on a vehicle with a net carrying value of \$18,750 has been given as security	19,004	22,713
- 5%, payable in monthly instalments of \$795 (€448) including principal and interest, maturing in November 2010. A moveable hypothec on a vehicle with a net carrying value of \$65,700 has been given as security	23,559	-
Obligations under capital leases		
- Discounted at 7.75%, payable in total monthly instalments of \$6,163 including principal and interest, maturing between August 2010 and November 2011	150,199	54,561
	851,302	1,055,829
Less: Current portion	330,503	295,997
	520,799	759,832

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

	Obligations under capital leases	Other debts
	\$	\$
2009	73,950	265,929
2010	69,726	197,547
2011	20,727	104,522
2012	-	98,132
2013	-	34,973
	164,403	701,103
Less interest	14,204	
	150,199	

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

Issuance of shares:

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 and has therefore issued on the same day 8,000,000 common shares to the holders of the special warrants. 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.

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.

Note 9 – Other equity components

The following table presents the other equity components as at December 31, 2008 and 2007:

	2008	2007
	\$	\$
Stock option-based compensation	1,206,769	1,129,784
Warrants	1,489,229	1,693,774
	2,695,998	2,823,558

Stock-based compensation plans

Stock option plan

In May 2008, 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 5,100,000 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, 2007 and summarize information about fixed stock options outstanding and exercisable as at December 31:

	2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	2,943,286	1.17	2,408,203	1.76
Granted	825,000	1.02	1,390,000	0.79
Exercised	(126,667)	0.42	(15,000)	0.40
Cancelled	(880,696)	1.69	(839,917)	2.22
Outstanding – End of year	2,760,923	1.00	2,943,286	1.17
Exercisable – End of year	1,693,215	1.08	1,519,079	1.53

Exercise price	Options outstanding as at December 31, 2008		Options exercisable as at December 31, 2008	
	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life
\$0.37	65,000	2.95	48,750	2.95
\$0.40	309,583	2.73	274,167	2.73
\$0.65	600,000	3.28	350,000	3.28
\$0.69	175,000	3.48	102,083	3.48
\$0.73	150,000	3.34	87,500	3.34
\$0.80	40,000	3.21	26,667	3.21
\$1.00	126,000	2.93	91,833	2.57
\$1.02	630,000	4.24	205,000	4.24
\$1.12	250,000	3.76	112,500	3.75
\$1.20	120,000	1.95	99,375	1.95
\$2.10	50,000	0.82	50,000	0.82
\$2.15	50,000	1.17	50,000	1.17
\$2.80	145,000	0.91	145,000	0.91
\$3.00	50,340	0.25	50,340	0.25
	2,760,923		1,693,215	

During the year ended December 31, 2008, the Company granted its employees and service suppliers 825,000 stock options (1,390,000 in 2007). The fair value of these stock options amounts to \$572,325 (\$737,399 in 2007). Compensation costs for the year ended December 31, 2008 amounted to \$489,163 (\$348,050 in 2007).

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:

	2008	2007
Risk-free interest rate	2.92 %	4.21 %
Expected volatility	85 %	82 %
Dividend yield	nil	nil
Expected life	60 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.

Employee stock purchase plan

The Company has established an employee stock purchase plan to enable employees of the Company and its participating subsidiaries to buy common shares by way of regular salary deductions to which management contributions are added. Under this plan, employees can

pay up to 8% of their annual base salary to a maximum of \$3,000 per year. The Company and its participating subsidiaries pay contributions equal to those of the employees. The plan allows deferral of the income tax associated with the employee and employer contributions as part of a registered retirement savings plan (RRSP). The Company issues common shares monthly. The purchase price of the shares is equal to the weighted average price for the last five business days prior to the last business day of the month. The Company recorded compensation costs of \$85,127 (\$45,437 in 2007) for employer contributions to this plan.

Deferred stock unit plan for directors

The Company has established a deferred stock unit compensation plan for its non-employee directors. The directors receive as annual compensation and director's fees deferred stock units redeemable in cash when they cease to be directors of the Company. The number of stock units issued is calculated by dividing the applicable amount of the compensation by the weighted average price of Company shares during the last five trading days preceding the end of each quarter. This amount, as well as any subsequent changes in share prices, are recorded as compensation costs and included in selling and administrative expenses. As at December 31, 2008, the number of outstanding stock units amounted to 614,855 (479,218 in 2007). During the fiscal year, the Company recorded as administrative expenses a charge of \$46,691 (\$261,871 in 2007) for compensation under this plan. As at December 31, 2008, the amount due to directors under this plan is \$461,141 (\$513,018 as at December 31, 2007).

Warrants

The following table presents the warrant activity during the years ended December 31, 2008 and 2007:

	2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	5,603,218	1.63	2,188,939	1.44
Granted*	-	-	3,883,412	1.68
Cancelled**	(200,000)	1.00	(469,133)	1.40
Outstanding – End of year	5,403,218	1.65	5,603,218	1.63

* 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 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 a 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

** In November 2008, 200,000 warrants expired (469,133 in October 2007). The fair value of these warrants in the amount of \$204,545 (\$386,794 in 2007) was transferred to the contributed surplus.

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

	2008	2007
	\$	\$
200,000 warrants at \$1.00, maturing on November 28, 2008	-	204,545
354,000 warrants at \$1.00, maturing on November 7, 2009	168,955	168,955
1,764,705 warrants at \$1.50, maturing on September 27, 2010	404,181	404,181
1,764,707 warrants at \$2.00, maturing on September 27, 2010	332,396	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
	1,489,229	1,693,774

Note 10 – Contributed surplus

The following table presents the contributed surplus components as at December 31, 2008 and 2007:

	2008	2007
	\$	\$
Expiry of a long-term debt conversion option	390,480	390,480
Expiry of the stock option related to a business combination	266,779	266,779
Expiry of warrants	603,584	399,039
Reversal of stock options granted as compensation following employee departure	544,874	167,699
	1,805,717	1,223,997

Note 11 – Commitments

The Company's aggregate commitments under lease agreements for offices are \$3,129,967. Furthermore, the Company agreed to pay royalties of \$300,000 on royalties on utilization of a software license. The minimum annual instalments to be paid over the next five years are established as follows:

	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$
Use of offices	1,044,070	1,058,105	721,185	70,945	70,945
Royalties on utilization of a software license	300,000	-	-	-	-

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 \$278,041 for fiscal 2008 (\$202,476 in 2007).

The Company also benefits from scientific research and experimental development tax credits. These tax credits, which were applied against research and development expenses, stood at \$901,381 for fiscal 2008 (\$619,935 in 2007).

Note 13 – Restructuring fees

During the first quarter of 2008, the Company incurred \$419,156 (\$661,505 in 2007) as non-recurring restructuring fees. These fees consist mainly of severance pay for former executives and employees.

Note 14 – Additional information

Statement of earnings

a) Financial expenses

	2008	2007
	\$	\$
Amortization of deferred financing expenses	-	67,074
Interest on long-term debt	96,384	509,542
Interest and bank charges	36,978	67,520
Interest income	(260,264)	(125,091)
Total	(126,902)	519,045

Statement of cash flows

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

	2008	2007
	\$	\$
Warrants issued	-	168,955
Convertible debentures converted into common shares	-	994,078
Transfer of the matured portion of options to the contributed surplus	-	259,001
Transfer of matured warrants to the contributed surplus	204,545	306,794
Converted portion of the long-term debt conversion options transferred to share capital	-	4,009
Stock options granted as compensation transferred to the contributed surplus	377,175	126,059
Stock options exercised as compensation transferred to share capital	35,003	3,997
Business combination-related costs included in accounts payable and accrued liabilities	336,227	-
Issue expenses included in accounts payable and accrued liabilities	-	71,438
Assets under a capital lease	139,728	57,656

c) Additional information

	2008	2007
	\$	\$
Interest paid	97,223	411,085
Interest cashed	(296,478)	(72,332)

Note 15 – Financial instruments

Nature and extent of risks

Since January 1, 2008, the Company adopted the new requirements of CICA Handbook Section 3862, "Financial Instruments – Disclosures". This new section requires the entity to disclose information to enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of an entity's exposure to risks arising from financial instruments, including how the entity manages those risks. The Company is mainly exposed, through its financial instruments, to credit, liquidity, foreign currency and interest rates risks. The following analysis provides a measure of these risks as at December 31, 2008.

Credit risk

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

The Company's credit risk is primarily attributable to its accounts receivable. In the event of a future credit loss relating to one or more significant clients, the Company could be required to record a material charge to earnings. The Company believes that credit risk regarding accounts receivable is limited due to the geographic location of its clients and their credit history.

In general, the Company does not normally require collateral or other security from clients for trade accounts receivable; however, credit is extended only after evaluation of creditworthiness. In addition, the Company performs ongoing credit reviews of all its clients and establishes an allowance for doubtful accounts when balances are deemed to be uncollectible. This allowance is applied against accounts receivable. The Company is exposed to credit risk up to the carrying amount. As at December 31, 2008, the provision for bad debts amounted to \$532,128 (\$135,437 in 2007). The bad debt expense of \$1,126,091 (\$94,170 in 2007) has been reflected in earnings under selling and administrative expenses.

The aging of the trade receivables (before provision for bad debt) is as follows:

	2008	2007
	\$	\$
0 - 30 days	4,338,743	3,500,221
31 - 60 days	1,297,008	1,722,826
61 - 90 days	306,419	397,975
91 +	1,355,265	1,447,616
	<u>7,297,435</u>	<u>7,068,638</u>

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by monitoring closely its cash to maintain a sufficient level of liquidity to be able to meet its financial obligations in the foreseeable future. During the previous fiscal years, the Company principally financed its expansion through the issuance of shares.

The following are the contractual maturities of financial liabilities as at December 31, 2008.

	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,442,361	4,442,361	4,442,361	-	-
Long-term debt	851,302	975,108	390,423	441,829	142,856
	<u>5,293,663</u>	<u>5,417,469</u>	<u>4,832,784</u>	<u>441,829</u>	<u>142,856</u>

Foreign currency risk

The Company is exposed to foreign currency risks as a result of its sales to foreign countries and the related trade accounts receivable. Most of these sales are denominated in US dollars (USD), in euros (EUR) and in pound sterling (GBP). The risks are partially hedged by purchases and operating expenses denominated in these currencies.

The following tables present the main financial instruments exposed to foreign currency risks as at December 31, 2008:

(In Canadian dollars)	USD	EUR	GBP
Cash and cash equivalents	648,889	649,356	671,331
Current assets	3,964,245	751,720	1,713,648
Current liabilities	(434,147)	(870,199)	(445,098)
Long-term debt	-	(19,003)	(23,559)
Financial instruments exposed to foreign currency risk	<u>4,178,987</u>	<u>511,874</u>	<u>1,916,322</u>

(In Canadian dollars)	USD	EUR	GBP
Revenues	9,682,891	2,442,125	4,339,854
Expenses	(2,164,557)	(3,377,621)	(3,862,972)
Net exposure to foreign currency risk	7,518,334	(935,496)	476,882

The following exchange rates are those of the year ended December 31, 2008:

	Average rate	Closing rate
USD to CAD	1.0660	1.2180
EUR to CAD	1.5603	1.6992
GBP to CAD	1.9617	1.7754

Based on the Company's foreign currency exposures noted above, a hypothetical increase in the foreign exchange rate of 5% compared to the Canadian dollar presented in the table above would have increased (decreased) net earnings as follows:

(In Canadian dollars)	Source of net earning variability from changes in exchange rates		
	USD	EUR	GBP
Financial instruments	208,949	25,594	95,816
Revenues and operating expenses	375,917	(46,775)	23,844
Increase (decrease) in net earnings	584,866	(21,181)	119,660

Interest rate risk

The Company's interest rate risk is related to cash and cash equivalents and term deposits. The Company's debts are subject to fixed interest rates or are non-interest bearing, as mentioned in note 7. The Company considers that interest rate risk is not significant on its operations, and has not provided any sensitivity analysis on the effects of potential fluctuations. Accounts receivable, work in progress as well as accounts payable and accrued liabilities are non-interest bearing.

Fair value

Cash and cash equivalents and term deposits are recognized at fair value, while accounts receivable, work in progress, accounts payable and accrued liabilities as well as long-term debt are financial instruments whose fair value approximates their carrying value because of their short-term maturity or current market rates.

Note 16 – Capital disclosures

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservation approach towards financial leverage and management of financial risk. The Company aims to increase its market share and its profits to maximize the shareholders' investment return and intends to maintain a flexible capital structure in order to finance its growth, take advantage of acquisition opportunities and react to variations in economic conditions.

The Company's objectives, policies and procedures for capital management have not changed since the previous year. Moreover, the Company is not subject to respect ratios or other external requirements concerning its capital structure. The Company defines its capital as consisting of cash and cash equivalents, term deposits, current portion of the long-term debt, bank loans, long-term debt and shareholders' equity.

The amounts under management are reflected in the table below:

	2008	2007
	\$	\$
Cash and cash equivalents	7,405,217	11,730,855
Term deposits	214,600	185,386
Current portion of long-term debt	330,503	295,997
Bank loans	-	563,280
Long-term debt	520,799	759,832

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may purchase shares, issue new shares and new debt titles or refinance existing debt with different characteristics.

Note 17 – 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:

	2008	2007
	\$	\$
Income tax provision at combined Canadian federal and provincial statutory tax rate (30.90% in 2008 and 32.02% in 2007)	(820,000)	(590,000)
Increase (decrease) due to:		
Non-deductible expenses or non-taxable revenues	(60,000)	160,000
Future income tax asset related to share capital components	(50,000)	(170,000)
Effect of exchange rate on deferred losses in foreign currencies	(400,000)	280,000
Effect of exchange rate on translation of integrated foreign subsidiaries	380,000	(30,000)
Expiry of tax losses	2,210,000	850,000
Difference between statutory and future income tax rates	(40,000)	2,440,000
Variation in valuation allowance	(1,710,000)	(2,660,000)
Others	10,000	(280,000)
	(480,000)	-

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

	2008	2007
	\$	\$
Future income tax assets		
Property, plant and equipment	1,130,000	1,130,000
Intangible assets	1,160,000	1,030,000
Research and development expenses	6,170,000	5,410,000
Financing expenses	160,000	200,000
Others	420,000	420,000
Deferred losses	7,900,000	10,820,000
	16,940,000	19,010,000
Valuation allowance	(16,750,000)	(18,930,000)
	190,000	80,000
Future income tax liabilities		
Intangible assets	(800,000)	-
Research and development tax credits	(110,000)	(80,000)
Net future income tax assets	(720,000)	-

As at December 31, 2008, the Company has accumulated operating losses, for income tax purposes, in several tax jurisdictions against which a valuation allowance of \$7,820,000 (\$10,740,000 in 2007) 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 \$	
2009	7,530,000	5,830,000	-
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	-	-	1,860,000
2023	-	-	840,000
2024	-	-	1,020,000
2025	-	-	760,000
2026	3,760,000	3,350,000	-
2027	520,000	340,000	-
Indefinite	-	-	2,170,000
	21,630,000	18,890,000	6,940,000

During the year, losses of \$8,842,835 at the federal level (\$2,480,913 in 2007) and \$7,448,880 at the provincial level (\$4,054,309 in 2007) expired.

In addition, a Company's subsidiary has accumulated capital losses of \$590,000 (\$590,000 in 2007) at the federal and provincial levels, against which a valuation allowance of \$80,000 (\$80,000 in 2007) was established. These losses can be carried forward indefinitely against future capital gains.

In addition to the operating losses, as at December 31, 2008, the Company has accumulated research and development expenses in Canada amounting to \$15,630,000 (\$13,930,000 in 2007) at the federal level and \$32,110,000 (\$27,900,000 in 2007) at the provincial level, against which a valuation allowance of \$6,170,000 (\$5,410,000 in 2007) was established. These expenses can be carried forward indefinitely against future years' taxable income in their respective tax jurisdiction.

Also, investment tax credits of \$2,930,000 (\$2,380,000 in 2007) at the federal level can be applied against income taxes of future years expiring between 2009 and 2028.

Finally, the difference between the carrying amounts and tax bases of some assets and liabilities has created a deductible timing difference of \$10,530,000 (\$10,190,000 in 2007) at the federal level and \$10,920,000 (\$10,590,000 in 2007) at the provincial level.

Note 18 – 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:

	2008	2007
	\$	\$
Canada	9,285,868	10,704,469
United States	9,525,413	4,066,218
Europe	6,901,055	3,401,171
Total	25,712,336	18,171,858

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

Note 19 - Contingency

A subsidiary of the Company has been given notice of a lawsuit, alleging the existence of a verbal license agreement and seeking to force it to provide software or alternatively pay US\$500,000 in damages. Management denies the existence of such an agreement and believes this suit to be without merit. Accordingly, no provision has been recorded for this purpose.

Note 20 - Subsequent event

On March 9, 2009, the Company entered into a new banking agreement for \$2.6 M with the Bank of Montreal. This agreement includes an operating line of credit of \$1 M and financing of \$1.6 M for research and development and Cité Multimédia Montréal tax credits. The facilities are guaranteed by the Company's current and future receivables and are subject to the Company maintaining certain financial ratios.