



Form 51-102F1

**PIXMAN NOMADIC MEDIA INC.  
(TSX-V: PMN)**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2007**

The objective of this Management's Discussion & Analysis ("MD&A") report dated November 26, 2007, is to facilitate the understanding and the evaluation of trends and important changes related to the results and financial position of Pixman Nomadic Media Inc. (the "Corporation"), formerly Pixman Capital Inc. ("Pixman"). This analysis must be read in conjunction with the Corporation's unaudited interim consolidated financial statements as at and for the period ended September 30, 2007 (the "Consolidated Financial Statements") and accompanying notes as well as the Corporation's annual audited consolidated financial statements for the period ended June 30, 2007 and accompanying notes all of which can be found, along with additional information about the Corporation, on SEDAR at [www.sedar.com](http://www.sedar.com).

The financial information presented in this MD&A and in the Consolidated Financial Statements was prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. The Corporation reports its results in Canadian dollars. Unless otherwise indicated, all amounts in this analysis are in Canadian dollars.

Management prepared this MD&A taking into account all available information as at November 26, 2007. The Consolidated Financial Statements and the MD&A were reviewed by the Audit Committee and approved by the Board of Directors of the Corporation but have not been reviewed by the Corporation's external auditors.

**Notice Regarding Forward-Looking Statements**

This MD&A includes certain forward looking statements concerning the future performance of the Corporation's business, its operations, and its financial results and conditions. When used in this MD&A the words "believe", "anticipate", "intend", "estimate", "expect", and other similar expressions are intended to identify forward-

looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on current expectations of the Corporation's management. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates, or expectations by a number of factors, including technological change, economic conditions, competitive factors, and changes in accounting rules or standards, many of which are beyond the Corporation's control (see "Risks and Uncertainties"). Therefore, future events and results may vary substantially from what we currently foresee. We disclaim an intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Company Profile

Pixman Nomadic Media Inc. is a tactical media company offering a variety of nomadic multi-media solutions and services to clients and agencies around the world. The foundation of the Corporation's business is the PixMonitor™ system, a wearable audiovisual unit with a flat-screen suspended above a brand ambassador's head. The Corporation's offering has since evolved and now includes an array of tactical multi-media systems and applications running in nomadic mode available in approximately twenty five countries around the world. The PixMonitor and other multi-media systems (hereinafter referred to as "Pixman Systems"), represent innovative ways to promote brands, companies, products and services directly with a target audiences in specific locations.

The Corporation generates revenue from two business segments. The "Nomadic Media" segment represents revenue from the Corporation's nomadic media solutions offered in North America and Europe while the "Licensing" segment represents revenue from the licensing, leasing and sale of Pixman Systems and related software to international licensees.

## Results for the First Quarter ended September 30, 2007

The following table highlights the key operating results for the three months ended September 30, 2007 and 2006.

For the Three months ended September 30,		
	2007	2006
Revenue	\$ 703,734	\$ 331,849
Operating expenses		
Sales, marketing & operations	639,955	388,835
General & administrative	561,077	176,772
Research & development, net	67,854	33,230
Total operating expenses	1,268,886	598,837
Amortization	68,068	46,894
Short-term interest	4,404	25,115
Interest on long term debt and convertible debentures	—	11,041
Change in fair value of foreign currency imbedded derivatives	18,040	—
Foreign exchange loss	2,416	22,493
Net loss	\$ (658,080)	\$ (372,531)
Basic and diluted loss per common share	(0.02)	(0.03)
Weighted average number of common shares outstanding	33,137,500	11,949,232

### **Revenues**

Total revenues for the three-month period ended September 30, 2007 were \$703,734; \$371,885 or 112.1% greater than the same period last year. The Nomadic Media segment performed well versus last year with total revenue of \$633,806 representing an increase of 232.7% versus the same period last year. The main contributor to this year-over-year growth was sales realized through the Corporation's newly implemented value added reseller ("VAR") business model in Europe. In addition, some significant media campaigns were executed in North America including one involving over 100 Pixman Systems deployed simultaneously in a major retail chain across Canada.

In the Licensing segment, first quarter revenue was \$59,098. This compares to \$141,357 during the first quarter of 2006 of which approximately \$100,000 represented sales of Pixman Systems to licensees. First quarter licensing revenue in 2007 represents license fees and lease payments as no Pixman Systems were sold in the period.

## Expenses

Total net operating expenses for the three months ended September 30, 2007 were \$1,268,886 versus \$598,837 for the same period last year generally reflecting the Corporation's scaling-up of operations for growth as well as additional expenses related to being a publicly-traded enterprise.

Sales, marketing and operating expenses increased from \$388,835 (\$331,505 Nomadic Media, \$57,330 Licensing) to \$639,955 (\$609,579 Nomadic Media, \$30,376 Licensing) for the three months ended September 30, 2006 and 2007 respectively, an increase of \$251,120 or 64.6%. Payroll expenses for additional selling, marketing and operations personnel account for approximately \$71,547 or 23.8% of the increase while approximately \$149,865 (or 49.8% of the increase) represented additional direct costs related to the higher Nomadic Media sales activity.

General & administrative expenses increased from \$176,772 for the first quarter 2006 to \$561,077 for the same period this year. The main contributors to this \$384,305 or 217.4% increase were increases in: professional fees of \$108,936; administrative payroll expenses of \$97,657; stock-based compensation expenses of \$77,990; and, additional rent of \$49,381.

R&D expenses increased by \$34,624 or 104.2% from the first quarter of fiscal 2007 to the first quarter of fiscal 2008 reflecting the Corporation's increase in R&D project expenses as payroll remained flat.

The Corporation had no interest on long-term debt and convertible debentures versus \$11,041 in the first quarter of fiscal 2007 as all debentures had previously been converted and long-term debt was repaid prior to year-end June 30, 2007.

The Corporation implemented newly required accounting policies regarding financial instruments starting July 1, 2007. The net result of these new policies was the recognition of \$18,040 of non-cash unrealized loss on the change in fair value of foreign currency imbedded derivatives attached to its operating and sales-type leases. There were no such expenses recognized during fiscal 2007.

The net loss for the three-month period ended September 30, 2007 was \$658,080 or \$0.02 per common share compared to a net loss of \$372,531 or \$0.03 per common share for the same period last year.

### **Balance Sheet Highlights**

Total assets of the Corporation were \$2,400,518 as at September 30, 2007 compared to \$2,904,166 as at June 30, 2007. The decrease is largely due to a reduction in cash, cash equivalents and short term investments of \$535,427.

The Corporation's net investment in property and equipment increased by \$130,682 during the first quarter of fiscal 2008 reflecting the increased number of Pixman Systems deployed. Our equipment park increased to over 280 units at the end of first quarter fiscal 2008 versus approximately 140 units as at September 30, 2006 and 200 units as at June 30, 2007. The Corporation also made further gross investments of \$34,700 during the quarter to acquire an important software license that will provide certain interactive features to its Pixman System offering.

Total current liabilities increased from \$983,231 to \$1,041,869 from June 30, 2007 to September 30, 2007 due to increased accounts payable of \$58,638 partially offset by a reduction in deferred revenue of \$175,294.

With the new financial instruments accounting policies discussed above, the Corporation's total fair value adjusted liability for foreign currency imbedded derivatives as at September 30, 2007 was equal to \$48,208 versus zero as at June 30, 2007. This reflects the net unrealized loss based on future exchange rates on operating and sales-type leases contracted for in US dollars with international partners who's own currency is also not the US dollar.

Total shareholders' equity declined during the first quarter ended September 30, 2007 by \$608,273 due to the quarter's loss of \$658,080.

### **Cash flow Highlights**

Total cash used in operating activities was \$298,812 for the three months ended September 30 2007 primarily due to the loss for the period of \$640,040. This compares to cash used in operations of \$306,512 in the same period last year.

Aggregate cash generated from investing activities for the first quarter of fiscal 2008 amounted to \$366,801, resulting from the maturity of \$600,000 of short-term investments, offset by investments in plant and equipment of \$175,109, investments in leases of \$13,757 and investments in patents, trademarks and licenses of \$44,333. During the same period last year, a total of \$22,080 was invested in property and equipment and patents, trademarks and licenses.

A total of \$3,416 of cash was used to repay principal on capital leases during the first quarter of fiscal 2008 while in the same period last year the Corporation repaid long-term debt in the amount of \$41,803 and increased the outstanding convertible debentures by \$4,322.

The increase in cash and cash equivalents amounted to \$64,573 for the three month period ended September 30, 2007 leaving ending cash and cash equivalents of \$179,226

as at September 30, 2007. This compares to a decrease in cash and cash equivalents of \$366,073 for the period ended September 30, 2006 leaving a balance of \$110,212.

## Outlook

The Corporation has now reported two successive quarters with total sales revenues 206.1% and 112.1% respectively above the prior year periods. Total revenue for the first quarter of fiscal 2008 represented 54.8% of total fiscal 2007 revenue, despite the negative impact of the declining U.S. dollar. These results suggest that demand for the Corporation's nomadic media services continues to grow in both the Nomadic Media and Licensing business segments. The Corporation considers that these positive trends are a reflection of the shift of advertising and promotional budgets from traditional media (television, radio and print) to more non-traditional media services such as those offered by the Corporation with its Pixman Systems. We expect this trend to accelerate and with our global presence and innovative systems and technologies, the Corporation expects significant growth in demand for its solutions.

In the Nomadic Media services segment, the Corporation expects that fiscal 2008 will show important developments in the implementation of its previously announced VAR business model in the U.S. and Europe. The business model aims to leverage the sales channels of VAR partners to access larger nomadic media budgets while reducing the need for fixed operational staff and other resources. As at the date of this report, the Corporation has VAR agreements in place with leading promotional agencies in Spain, Italy, Germany, Hungary, and Tunisia and discussions with other potential VARs in other European countries are well underway. As a result of these relationships, the Corporation has been able to offer and execute international nomadic media campaigns in major cities in several countries at the same time.

In North America, the VAR business model is in its initial stages of deployment with our expectation that additional agreements will be in place in the U.S. and in Canada within the next few months as of the date of this report.

These new sales channels created through the VAR business model combined with the structural changes implemented recently by the Corporation is expected to accelerate the sales growth seen in the last two quarters in which year-on-year Nomadic Media sales revenues were up 183.7% and 232.7% respectively.

In the Licensing segment, demand continues to come from potential licensees outside North America and Europe for deployment of Pixman technologies and services in their respective countries. The Corporation will continue to develop its network of international partners in order to expand its footprint and enlarge the Pixman community. Negotiations are ongoing with a number of prospective partners in countries where the Corporation does not yet have a presence. We believe that the strength of this network will eventually allow the Corporation to offer and effectively deploy multi-country

campaigns for major clients. As at the date of this report, the Corporation has operating and sales-type leases in place with annualized revenues of approximately \$240,000.

In the coming months, and subject to appropriate financing, Pixman will continue to invest in product and system development through specific R&D projects. We believe that these strategic investments will allow the Corporation to offer additional systems and applications including further interactive features in media events thereby increasing the attractiveness and measurability of campaigns executed with Pixman Systems.

The Corporation also continues to explore the possibilities of strategic alliances and acquisitions as avenues for future growth. The market for non-traditional media services is highly fragmented and Pixman aims to be a leader in consolidating and developing the emerging sector.

The above-mentioned strategic steps are contingent on the resolution of the Corporation's financing issues described in the Liquidity and Capital Resources section of this MD&A and in the Consolidated Financial Statements. These include its ability in the very near term to secure additional financing on acceptable terms, to continue to reduce operating expenses, to obtain new business, to achieve positive cash flows and ultimately to achieve profitability. The outcome of these matters is dependent upon factors outside of the Corporation's control.

### **Liquidity and Capital Resources**

As at September 30, 2007, the Corporation had positive working capital (current assets minus current liabilities) of \$124,137. This compares to net working capital of \$823,655 as at June 30, 2007.

The Company's committed cash obligations and expected level of expenses for the next year exceed the committed sources of funds available, including cash and cash equivalents and short-term investments. To date, the Company has financed its cash requirements primarily from operating revenues, advances from shareholders, share and debt issuances, bank indebtedness, and government assistance. The Company is currently pursuing financing alternatives including near-term equity financing. The Company's ability to continue as a going concern is dependent on successful resolution of the financing initiative and its ability in the very near term to continue reduce operating expenses, to obtain new business, to achieve positive cash flows and ultimately to achieve profitability. The outcome of these matters is dependent upon factors outside of the Company's control. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern.

The Corporation is currently actively seeking financing from a variety of sources including private placements, from the exercise of outstanding warrants and options, and from traditional debt financing. Such additional funding is subject to several business and financial market risks as described in more detail in the section "Risk and Uncertainties".

As announced on November 14, 2007, the Corporation has taken steps subsequent to the end of the first quarter to reduce its operating expenses. Several non-essential positions were eliminated and other expenses were reduced. The impact of these cost reduction measures will be realized in the coming quarters while the Corporation seeks additional financing.

### **Off-Balance Sheet Arrangements**

As at September 30, 2007 the Corporation did not have any off-balance sheet arrangements.

### **Transactions with Related Parties**

The Corporation receives certain management services from a company controlled by a director, officer and significant indirect shareholder of the Corporation. These services include human resource management, information technology services, office facilities, parking and security services. During the three months ended September 30, 2007, the total amount of such management services amounted to \$49,161 and the Corporation owed the related company a total of \$20,894 as at September 30, 2007.

The Corporation also purchased a R&D software license from a company controlled by the same director, officer and significant shareholder. The Corporation made payments for this license in the amount of \$34,700 during the three months ended September 30, 2007.

### **Changes in Critical Accounting Policies and Estimates**

Unless otherwise noted below, the Corporation utilized the same accounting policies to prepare the Consolidated Financial Statements as were used in preparing the annual audited consolidated financial statements as at June 30, 2007.

### **Changes in Accounting Policies**

The Canadian Institute of Chartered Accountants (“CICA”) recently released Handbook Sections: 3855, *Financial Instruments – Recognition and Measurement*; 1530, *Comprehensive Income*; 3251, *Equity*; 3865, *Hedges*; 3861, *Financial Instruments – Disclosure and Presentation*, and 1506, *Accounting Changes*. The Corporation adopted these sections on July 1, 2007. The impact of the adoption of these Sections on the Corporation’s interim consolidated financial statements is presented below.

### **Financial Instruments – Recognition and Measurement**

Under Section 3855, all financial assets are classified as *held for trading*, *held-to-maturity investments*, *loans and receivables* or *available-for-sale*; all financial liabilities must be classified as *held for trading* or as *other financial liabilities*. All financial instruments are recorded initially on the consolidated balance sheet at fair value. After initial recognition, financial instruments should be measured at their fair value, except for held-to-maturity investments, loans and receivables, and other liabilities, which should be measured at amortized cost using the effective interest method. Gains or losses resulting from changes in the fair values of financial assets classified as held for trading are included in net income in the period in which they arise. Gains or losses resulting from unrealized changes in the fair values of available-for-sale financial assets are recognized in other comprehensive income until the financial instrument is derecognized and the cumulative gain or loss is then recognized in net income. An other than temporary loss in the value of an available-for-sale financial asset requires a write-down to its fair value through an impairment loss recognized in net income.

The Corporation has classified its cash and cash equivalents as *held for trading*, and its accounts receivable and investments in sales-type leases as *loans and receivables*.

Accounts payable and accrued liabilities, due to related parties and capital lease obligations have been classified as *other financial liabilities*.

Section 3855 also requires that embedded derivatives be separated from its host contract and accounted for as a derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

The Corporation has determined that certain of its operating and sales-type leases contain foreign currency embedded derivatives. Following the transitional provisions of Section 3855, the fair value of these embedded derivatives on July 1, 2007 resulted in the recognition of a liability of \$30,168 and an increase to the opening July 1, 2007 deficit. As at September 30, 2007, the change in the fair value of the embedded foreign currency derivatives resulted in an unrealized loss of \$18,040 recognized in the net loss of the period. The fair value of the embedded foreign currency derivatives was based on published forward rates.

### **Comprehensive income (loss) and equity**

Section 1530 establishes standards for reporting comprehensive income (loss) and as a result of the adoption of this new Section, the cumulative amount, i.e. accumulated other comprehensive income (loss), is presented separately under shareholders' equity in the consolidated balance sheets and a reconciliation of the accumulated other comprehensive

income (loss) as well as the comprehensive income (loss) for the period are presented in the interim consolidated statements of shareholders' equity. The Corporation has not recognized any other comprehensive income in its interim consolidated financial statements.

### **Hedges**

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks. Hedge accounting modifies the basis for recognizing the gains, losses, revenue and expenses associated with a hedged item or a hedging item in an entity's income statement. It ensures that off-setting gains, losses, revenue and expenses are recognized in the same period. The adoption of this Section had no impact on the Corporation's consolidated results of operations or financial position.

### **Recent Accounting Pronouncements**

#### **Inventories**

In June 2007, the CICA issued a new accounting standard, Section 3031, *Inventories*, which replaces the existing standard for inventories, -Section 3030. The main features of the new section are as follows:

- Measurement of inventories at the lower of cost and net realizable value;
- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost; and
- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new Section is effective for the Corporation beginning January 1, 2008. The Corporation is currently assessing the impact on the financial statements.

Section 3862, *Financial Instruments – Disclosure*, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of 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 the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, *Financial Instruments – Disclosure and Presentation*. The Corporation does not expect that the adoption of this new section will have a significant effect on its unaudited interim consolidated financial statements.

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, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital

requirements, and, if it has not complied, the consequences of such non-compliance. The Corporation is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

These new standards have to be applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities shall be recognized as an adjustment to the opening balance of retained earnings or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The impact of the adoption of the new standards, except as noted above, did not have a material impact on the financial position or results of operations during the three-month period ended September 30, 2007

### Risks and Contingencies

In general, the Corporation's activities are subject to a variety of risk factors and uncertainties which may impact on the Corporation's ability to execute its strategic plan. The Corporation's business, financial position and results of operations may suffer the adverse effects of (but not limited to) the risk factors and uncertainties listed below and described in greater detail in its Information Circular dated November 14, 2006.

- The Corporation's ability to raise additional near-term financing
- The Corporation's history of losses and limited operating history
- Advertising and promotion industry trends
- The market's receptiveness to the Corporation's products and services
- Foreign business and foreign political disruption risk
- Foreign currency and other general economic risks
- Reliance on international license partners
- Reliance on key personnel
- Requirement for and risk in raising additional financing
- Risks related to the ability to enforce patents and other intellectual property rights

On August 30, 2006, the Corporation obtained from the Tribunal de Grande Instance de Paris ("TGI") the right to seize a product which was allegedly infringing the Corporation's intellectual property rights. The Corporation proceeded with this seizure on August 31, 2006 and served a writ of summons upon Cübb, a French limited liability company, on September 14, 2006. The Corporation seeks a judgment from the TGI enjoining Cübb (i) under a daily fine of €10,000, to cease its allegedly infringing acts; (ii) to pay to the Corporation an amount of €120,000 as compensation for its damages; and (iii) to pay to the Corporation its litigation costs. Provisional enforcement of the judgment is also being sought by the Corporation. The first procedural hearing was held on November 8, 2006. During the second hearing, held on December 13, 2006, Cübb filed its defense. Other procedural hearings occurred on January 31, 2007 and March 7, 2007, during which the TGI fixed the date for the trial for December 10, 2007. The outcome of these proceedings cannot be determined at this time by the Corporation.

## Internal Control over Financial Reporting

The Corporation's CEO and CFO are responsible for establishing and maintaining the Corporation's disclosure controls and procedures and internal control over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principals. They are assisted in this responsibility by the management team.

The CEO and CFO, after evaluating the design and effectiveness of the Corporation's disclosure controls and procedures and the design of internal controls as at June 30, 2007, and as reported in the annual MD&A dated October 29, 2007, concluded that several material weaknesses existed in the design of internal controls over financial reporting and as a consequence, a number of process level controls were assessed to be ineffective. The principal areas of deficiency found were:

- 1) Inexperience and lack of adequate resources in the financial accounting and reporting functions and their inability to account for complex transactions such as the Reverse Takeover, stock-based compensation and the accounting for leases; and,
- 2) Inadequate controls and processes to track physical inventory and fixed assets.

As a result of these weaknesses, there is a risk that a material misstatement would not be prevented or detected on a timely basis.

As a result of these reviews and in connection with the fiscal year 2007 audit, material errors were discovered which related to prior periods. The Corporation corrected these errors and re-filed its interim unaudited consolidation financial statements for the quarters ending December 31, 2006 and March 31, 2007 on October 26, 2007.

Management has undertaken a thorough review of the internal controls over financial reporting and is currently implementing an action plan to remedy any weaknesses in fiscal 2008. These plans include:

- 1) Ensuring adequate new staffing and training of the Corporation's financial department since year end;
- 2) Acquiring and implementing additional modules to the Corporation's accounting system to better manage physical inventory and fixed assets;
- 3) Designing and implementing additional internal control systems in the area of inventory and fixed assets, treatment of leases and stock-based compensation.
- 4) Designing and implementing test procedures for internal control over financial reporting.

The Corporation believes that the planned actions will ensure adequate internal controls over financial reporting. Management will evaluate on an ongoing basis the effectiveness of the Corporation's internal control over financial reporting.

**Other**

*Capitalization as of September 30, 2007*

<u>Capital Stock</u>	<u>Number</u>
Common shares	33,137,500

<u>Warrants and Options</u>	
Common share warrants	6,046,406
Common share options	2,479,831

Included in the balance of warrants above are 602,656 warrants to purchase units of the Corporation, which if exercised would result in the issue of 602,656 common shares and 301,328 half warrants to purchase one common share.

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).