



Form 51-102F1

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

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2007**

The objective of this Management's Discussion & Analysis ("MD&A") report dated February 25, 2008, 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 "Company"), formerly Pixman Capital Inc. ("Pixman"). This analysis must be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the period ended December 31, 2007 (the "Consolidated Financial Statements") and accompanying notes as well as the Company'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 Company, on SEDAR at 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 Company 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 February 25, 2008. The Consolidated Financial Statements and the MD&A were reviewed by the Audit Committee and approved by the Board of Directors of the Company but have not been reviewed by the Company's external auditors.

Notice Regarding Forward-Looking Statements

This MD&A includes certain forward looking statements concerning the future performance of the Company'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 Company'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 Company'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 Company's business are the PixMonitor™ and PixProjector™ systems, both wearable audiovisual units with a flat-screen suspended above a brand ambassador's head in the PixMonitor™ case, and a powerful hand-held projector in the PixProjector™ case. The Company'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™, PixProjector™ 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 Company generates revenue from two business segments. The "Nomadic Media" segment represents revenue from the Company's nomadic media solutions offered primarily in North America and Europe through Value Added Resellers ("VARs") while the "Licensing" segment represents revenue from the licensing, leasing and sale of Pixman Systems and related software to international licensees.

Operating Results

The following table highlights the key operating results for the three- and six-month periods ended December 31, 2007 and 2006.

	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Revenue	\$ 499,738	\$ 262,362	\$ 1,203,472	\$ 594,211
Operating expenses				
Sales, marketing & operations	579,827	410,604	1,219,782	799,439
General & administrative	622,858	671,988	1,183,935	848,760
Research & development, net	87,547	40,168	155,401	73,398
Total operating expenses	1,290,232	1,122,760	2,559,118	1,721,597
Amortization	81,168	47,222	149,236	94,116
Short-term financing charges	11,899	264,388	16,303	289,503
Interest on long term debt and convertible debentures	10,830	14,069	10,830	25,110
Change in fair value of foreign currency imbedded derivatives	12,496	—	30,536	—
Gain on sale of property and equipment	(19,614)	—	(19,614)	—
Foreign exchange loss (gain)	(9,972)	(2,049)	(7,556)	20,444
Net loss and comprehensive loss	\$ (877,301)	\$ (1,184,028)	\$ (1,535,381)	\$ (1,556,559)
Basic and diluted loss per common share	(0.03)	(0.06)	(0.05)	(0.08)
Weighted average number of common shares outstanding	33,137,500	20,353,669	33,137,500	19,301,832

Revenues

Total revenues for the three-month period ended December 31, 2007 were \$499,738; \$237,376 or 90.5% greater than the same period last year. The Nomadic Media segment continued to perform well versus prior year periods with total revenue of \$403,072 representing an increase of 120.7% versus the same period last year. The main contributor to this year-over-year growth was sales realized through the Company's newly implemented value added reseller ("VAR") business model in Europe as well as a strong quarter in North America.

In the Licensing segment, second quarter revenue was \$96,666. This compares to \$79,704 during the second quarter of 2007, a growth of 21.3%. The Licensing segment also sold several Pixman Systems during the quarter resulting in a gain on sale of property and equipment of \$19,614.

Total revenue after six months of fiscal 2008 operations amounted to \$1,203,472 versus \$594,211 for the first two quarters of fiscal 2007; a growth of \$609,261 or 102.5%. The Company's Nomadic Media Services segment delivered 177.9% of growth with revenue increasing from \$373,150 to \$1,036,878 over the comparable period reflecting the

development of the VAR business model around the world. In the Licensing segment, total sales after six months amounted to \$155,764 representing a reduction versus prior year of 29.5% due to relatively high sales of Pixman Systems in the prior year. The Company's strategic priority is to develop the VAR business model however we continue to selectively develop the licensing model in order to prepare markets for potential VAR arrangements.

The Company is pleased with the combined revenue through the second quarter of fiscal 2008 of over \$1.2 million as it represents 93.7% of last fiscal year's total annual revenue and continues the growth rate reported in the prior two quarters.

Expenses

Sales, marketing and operating expenses increased from \$410,604 (\$380,759 Nomadic Media, \$70,013 Licensing offset by corporate adjustment of \$40,168) to \$579,827 (\$570,699 Nomadic Media, \$9,128 Licensing) for the three months ended December 31, 2006 and 2007 respectively, an increase of \$169,223 or 41.2%. The majority of this increase relates to operating costs for the 90% year-over-year increase in sales revenue. For the six months ended December 31, 2007 total sales, marketing and operating expenses amounted to \$1,219,782 (\$1,180,278 Nomadic Media, \$39,504 Licensing) representing an increase of \$420,343 or 52.6% over prior year. Of this increase, \$202,080 represented additional direct operating costs for the 102.5% increase in sales revenue. The remaining increase in expenses is related to higher sales payroll and commissions.

General & administrative expenses decreased during the second quarter from \$671,988 in fiscal 2007 to \$622,858 this quarter (a 7.3% reduction) due to lower professional fees. For the first half of fiscal 2008, G&A expenses totalled \$1,183,935; an increase of \$335,175 or 39.5%. Of this variance, approximately \$200,000 was due to higher legal and other professional fees and \$82,000 was due to higher rent given the Company's new premises for operations.

R&D expenses increased by 118.0% during the second quarter and 111.7 % year to date versus prior year periods reflecting the Company's increase in non-payroll R&D project expenses. These additional R&D expenses were related to the development of new applications for Pixman Systems as well as system improvements.

The Company incurred short-term financing charges of \$11,899 during the quarter ended December 31, 2007 versus \$264,388 in the prior year quarter, the majority of which related to fair value of the Company's previously outstanding convertible debentures.

The Company implemented newly required accounting policies regarding financial instruments starting July 1, 2007. The net result of these new policies was the recognition of \$12,496 and \$30,536 of non-cash unrealized loss on the change in fair value of foreign currency imbedded derivatives attached to its operating and sales-type

leases for the three- and six-month periods ended December 31, 2007 respectively. There were no such expenses recognized during fiscal 2007.

The sale of Pixman Systems to international partners generated a gain on sale of property and equipment of \$19,614 in the second quarter 2008.

The net loss for the three-month period ended December 31, 2007 was \$877,301 or \$0.03 per common share compared to a net loss of \$1,184,028 or \$0.06 per common share for the same period last year. For the first six months of fiscal 2008 the net loss amounted to \$1,535,381 or \$0.05 per share versus \$1,556,559 and \$0.08 per share for the comparable period last year.

Balance Sheet Highlights

Total assets of the Company were \$2,221,176 as at December 31, 2007 compared to \$2,904,166 as at June 30, 2007. The decrease is largely due to the reduction in current assets from \$1,806,886 to \$1,043,373 over the period.

The Company's net investment in property and equipment increased by \$95,808 during the first two quarters of fiscal 2008 reflecting the increased number of Pixman Systems deployed. Our equipment park increased to over 280 units at the end of second quarter of fiscal 2008 versus approximately 140 units as at December 31, 2006 and 200 units as at June 30, 2007.

Total current liabilities increased from \$983,231 to \$1,670,701 from June 30, 2007 to December 31, 2007 reflecting an increase in accounts payables of \$429,906 and short term debt of \$478,976; \$300,000 of which was provided by a related party (see Related Party Transactions).

With the new financial instruments accounting policies previously discussed above, the Company's total fair value adjusted liability for foreign currency imbedded derivatives as at December 31, 2007 was equal to \$60,704 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 second quarter ended December 31, 2007 by \$1,424,408 mainly due to the first half fiscal 2008 loss of \$1,535,381 offset by an increase in contributed surplus of \$141,141.

Cash flow Highlights

Total cash used in operating activities was \$702,662 for the three months ended December 31 2007 primarily due to the loss for the period of \$877,301. This compares to cash used in operations of \$837,221 in the same period last year.

Total cash used in investing activities during the second quarter of fiscal 2008 amounted to \$11,954 versus the generation of \$1,305,046 during the second quarter of fiscal 2007 as a net result of the capital transaction.

Financing activities for the second quarter of 2008 included an advance from related party of \$300,000 and an increase in long-term and short-term bank debt of \$178,976 and \$60,924 respectively. The net use of cash for the quarter was \$179,226.

For the first half, total cash used in operations amounted to \$1,001,474 mainly through the cumulative loss of \$1,535,381. Cash generated from investing activities featured redemption of temporary investments of \$600,000 partially offset by net investment in property and equipment and intangible assets of \$243,901. Advances from related parties and bank generated funds of \$352,998 for the six months ended December 31, 2007 resulting in net use of cash of \$114,653 for the first half of fiscal 2008.

Outlook

The Company has now reported three successive quarters with total sales revenues 206.1%, 112.1% and 90.5% respectively above the prior year periods. Total revenue for the first half of fiscal 2008 represented approximately 94% of total fiscal 2007 revenue. Through December 31, 2007 the Company's direct margin from Nomadic Media Services revenue has increased from an average of approximately 33% in fiscal 2007 to 50% through Q2 2008. These results are a confirmation that the Company's emerging VAR business model is delivering the anticipated results of accelerating revenue growth and improving operating margins.

The Company considers that these positive revenue trends are also 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 Company with its Pixman Systems. We expect this trend to accelerate and with our global presence and innovative systems and technologies, the Company expects significant growth in demand for its solutions.

In the Nomadic Media services segment, the Company expects that the second half of fiscal 2008 will show important developments in the implementation of the VAR business model in the primary target regions of North America 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. The Company has VAR agreements in place with leading promotional agencies in an expanding group of countries on all continents including Spain, Italy, Germany, Hungary, Tunisia, the Ivory Coast, and finally the USA, where our partner, the Michael Alan Group, just completed its first campaign for MTV. We expect to add several new North American VARs in the third quarter. As a result of the growing list of internationally positioned VARs, the Company and its partners have been able to offer and execute international nomadic media campaigns simultaneously in major cities around the world at the same time.

Of particular interest this past quarter was the signing of a VAR agreement with Mass Media Makers, a provider of innovative marketing services in India. The potential for Pixman services in India is significant. The country has reported average annual economic growth of approximately 10% per annum over the last few years. Also of interest is its emerging consumer market of over 1.1 billion people, approximately one quarter of which, or 250 million people, are considered “middle-class consumers”. India also has at least 35 urban centers with populations over 1 million people. The Company believes that the ability to target emerging Indian consumer segments with nomadic media systems will become increasingly attractive to the growing list of mainstream brands interested in communicating their product and service benefits to the market. Mass Media Makers has been carefully preparing the launch of Pixman nomadic media services for the past two years securing operating permits and licenses to deploy nomadic media services in the major cities. They are now in final negotiations with some major brands to launch Pixman services in major cities across India.

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 Company 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 Company does not yet have a presence. In line with its primary focus of developing the VAR business model however, the Company is also negotiating to convert selected licensing partners to VAR agreements where the potential for growth is most promising.

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 Company 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. These include data capture capabilities through the internet and WiFi networks, data transfer through Bluetooth connections, gaming demonstrations using leading gaming platforms and other applications. These will allow the Company to maintain a leading position in the developing nomadic media market and brands to become more intimate and personal with their target market.

The Company 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 Company’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 Company's control.

Liquidity and Capital Resources

As at December 31, 2007, the Company had negative working capital (current assets minus current liabilities) of \$627,328. 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 Company 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 Company 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 Company seeks additional financing.

Off-Balance Sheet Arrangements

As at December 31, 2007 the Company did not have any off-balance sheet arrangements.

Transactions with Related Parties

The Company receives certain management services from a company controlled by a director, officer and significant indirect shareholder of the Company. These services include human resource management, information technology services, office facilities, parking and security services. During the three and six months ended December 31, 2007, the total amount of such management services amounted to \$33,552 and \$82,713

respectively and the Company owed the related company a total of \$64,909 as at December 31, 2007.

The Company acquired a R&D software license from a company controlled by the same director, officer and significant indirect shareholder during the year ended June 30, 2007. The Company paid additional amounts of \$34,700 during the six month period ended December 31, 2007 [2006 – \$nil] for this license which is reflected as investment in license in intangible assets.

On December 12, 2007 the Company announced that it had entered into a loan agreement with a corporation controlled by the same director, officer and significant indirect shareholder of the Company (the “Lender”) whereby the Lender made a loan in the principal amount of \$300,000 to the Company. The loan bears annual interest at the prime rate plus 2%, calculated monthly and not in advance. Pursuant to the loan agreement the Company will repay the principal outstanding amount of the loan, together with accrued and unpaid interest and all costs and expenses in respect thereof, on demand by the Lender but no earlier than March 31, 2008. The loan is being used by the Company for working capital and general corporate purposes.

Changes in Critical Accounting Policies and Estimates

Unless otherwise noted below, the Company 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 Company adopted these sections on July 1, 2007. The impact of the adoption of these Sections on the Company’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 Company 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 and bank indebtedness 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 Company 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 December 31, 2007, the change in the fair value of the embedded foreign currency derivatives resulted in an unrealized loss of \$30,536 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 Company 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 Company'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 Company beginning January 1, 2008. The Company 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 Company 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 Company 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- and six-month periods ended December 31, 2007.

Risks and Contingencies

In general, the Company's activities are subject to a variety of risk factors and uncertainties which may impact on the Company's ability to execute its strategic plan. The Company'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 Company's ability to raise additional near-term financing
- The Company's history of losses and limited operating history
- Advertising and promotion industry trends
- The market's receptiveness to the Company'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 Company obtained from the Tribunal de Grande Instance de Paris ("TGI") the right to seize a product which was allegedly infringing the Company's intellectual property rights. The Company 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 Company 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 Company an amount of €120,000 as compensation for its damages; and (iii) to pay to the Company its litigation costs. Provisional enforcement of the judgment is also being sought by the Company. 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 date for the trial was then postponed to October 27, 2008 due to a late submission of new exhibits by Cübb. The outcome of these proceedings cannot be determined at this time by the Company.

Internal Control over Financial Reporting

The Company's CEO and CFO are responsible for establishing and maintaining the Company'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 Company'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 Company 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 Company's financial department since year end;
- 2) Acquiring and implementing additional modules to the Company'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 Company believes that the planned actions will ensure adequate internal controls over financial reporting. Management will evaluate on an ongoing basis the effectiveness of the Company's internal control over financial reporting.

Subsequent Events

On February 20, 2008 the Company and a related party signed a subordination agreement in favor of the Company's bank in respect of a \$300,000 loan provided by the related party to the Company.

On February 20, 2008 the Company received a waiver letter from the Company's bank valid through March 31, 2008 regarding non-compliance with a certain debt covenant related to its banking facility.

Other

Capitalization as of December 31, 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	3,055,831

Included in the balance of warrants above are 602,656 warrants to purchase units of the Company, 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 Company is available on SEDAR at www.sedar.com.