

## **TO THE SHAREHOLDERS OF CORETEC INC.**

The consolidated balance sheet of Coretec Inc. as at March 31, 2008, and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the period then ended have not been reviewed by the Company's auditors, Ernst & Young LLP. These financial statements are the responsibility of management and have been reviewed and approved by the Company's audit committee.

# Coretec Inc.

## CONSOLIDATED BALANCE SHEETS

[in thousands - unaudited]

	March 31 2008 \$	December 31, 2007 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	585	1,829
Accounts receivable	12,283	12,389
Mortgage receivable	1,050	1,050
Inventories [note 2]	4,281	4,009
Prepaid expenses	661	688
<b>Total current assets</b>	<b>18,860</b>	<b>19,965</b>
Property, plant and equipment, net	29,908	30,250
Other assets [note 3]	775	756
	<b>49,543</b>	<b>50,971</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness [note 4]	2,960	4,021
Accounts payable and accrued liabilities	8,790	7,886
Current portion of long-term debt [note 4]	1,940	1,887
<b>Total current liabilities</b>	<b>13,690</b>	<b>13,794</b>
Long-term debt [note 4]	7,163	7,479
<b>Total liabilities</b>	<b>20,853</b>	<b>21,273</b>
<b>Shareholders' equity</b>		
Share capital [note 5]	61,066	61,066
Share capital held by long term incentive plan [note 5]	(82)	(100)
Contributed surplus [note 5]	773	750
Deficit	(33,067)	(32,018)
<b>Total shareholders' equity</b>	<b>28,690</b>	<b>29,698</b>
	<b>49,543</b>	<b>50,971</b>

See accompanying notes

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

[in thousands except per share amounts - unaudited]

	Three months ended	
	March 31	
	2008	2007
	\$	\$
<b>Sales</b>	<b>18,486</b>	22,818
Cost of sales	<b>15,648</b>	18,194
<b>Gross profit</b>	<b>2,838</b>	4,624
<b>Expenses</b>		
Selling, general and administrative	<b>2,579</b>	3,758
Depreciation and amortization	<b>1,142</b>	1,216
	<b>3,721</b>	4,974
Loss from operations	<b>(883)</b>	(350)
Interest and other expenses [note 8]	<b>200</b>	194
Foreign exchange (gain) loss [note 11]	<b>(2)</b>	74
Gain on disposal of equipment, net	<b>(32)</b>	(56)
Loss before income taxes	<b>(1,049)</b>	(562)
Provisions for (recovery of )income taxes	<b>-</b>	(15)
<b>Loss for the periods</b>	<b>(1,049)</b>	(547)
<b>Loss per share</b>	<b>(\$0.06)</b>	<b>(\$0.03)</b>
Loss per share, basic and diluted [note 7]		

*See accompanying notes*

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF DEFICIT

[in thousands - unaudited]

	Three months ended	
	March 31	
	2008	2007
	\$	\$
Deficit, beginning of period	(32,018)	(28,807)
Net income (loss) for the period	(1,049)	(547)
<b>Deficit, end of period</b>	<b>(33,067)</b>	<b>(29,354)</b>

*See accompanying notes*

# Coretec Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands - unaudited]

	Three months ended March 31	
	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(1,049)	(547)
Non-cash items		
Depreciation	1,142	1,216
Stock-based compensation	23	(25)
Gain on disposal of equipment	(32)	(56)
Unrealized foreign exchange loss	377	64
Long-term incentive plan compensation	18	10
Amortization of deferred finance charges	5	25
	484	687
Net change in non-cash working capital balances related to operations [note 10]	305	(1,762)
<b>Cash used in operating activities</b>	<b>789</b>	<b>(1,075)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term debt	—	1,774
Repayment of long-term debt	(311)	(300)
Increase (decrease) in bank indebtedness	(1,061)	1,580
Issuance of share capital	—	3
<b>Cash (used) provided in financing activities</b>	<b>(1,372)</b>	<b>3,057</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(681)	(2,974)
(Increase) decrease in other assets	(24)	82
<b>Cash used in investing activities</b>	<b>(705)</b>	<b>(2,892)</b>
Effect of exchange rate changes on cash	44	(7)
<b>Net decrease in cash during the period</b>	<b>(1,244)</b>	<b>(917)</b>
Cash, beginning of period	1,829	1,721
<b>Cash, end of period</b>	<b>585</b>	<b>804</b>
<b>Supplemental cash flow information</b>		
Interest paid	177	121

*See accompanying notes*

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**1. BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. These unaudited interim consolidated financial statements are prepared using the same accounting policies and application thereof as the consolidated financial statements for the year ended December 31, 2007. They do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the December 31, 2007 consolidated financial statements.

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Effective January 1, 2008, the Company adopted the following accounting standards recently issued by the Canadian Institute of Chartered Accountants (CICA):

**Inventory**

In June 2007, the CICA issued Section 3031, "Inventories", which replaces Section 3030, "Inventories" and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards. Effective for interim and annual financial statements beginning on or after January 1, 2008, this section provides more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing, and expands the disclosure requirements to increase transparency. There was no impact on the financial statements with the adoption of this new standard.

**Capital Disclosures**

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives policies and processes for managing capital. This new requirement is for disclosure only and does not impact the financial results of the Company. Management of capital is described in note 6 of these consolidated financial statements.

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Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, “Financial Instruments – Disclosure”, and Section 3863, “Financial Instruments – Presentation” to replace the existing Section 3861 “Financial Instruments – Disclosure and Presentation.” Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and has not impacted the financial results of the Company. Financial instruments and risk management are disclosed in note 11 to these consolidated financial statements.

Goodwill and Intangible Assets

The CICA issued the new accounting standard Section 3064 Goodwill and Intangible Assets which will replace Section 3062 Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Company will adopt it on January 1, 2009.

**2. INVENTORIES**

Inventories consist of the following:

	<b>March 31</b>	<b>December 31</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Raw materials	1,860	1,777
Work-in-process	1,701	1,401
Finished goods	720	831
	<b>4,281</b>	<b>4,009</b>

**3. OTHER ASSETS**

	<b>March 31</b>	<b>December 31</b>
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Deferred financing charges, net	69	74
Deposits on capital assets	706	682
	<b>775</b>	<b>756</b>

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**4. BANK INDEBTEDNESS AND LONG-TERM DEBT**

Bank Indebtedness

At March 31, 2008 there were \$3.0 million in funds advanced [\$4.0 million – December 31, 2007] and no letters of credit issued against the revolving credit facility [nil – December 31, 2007]. Fund availability under the credit facility is calculated as eligible accounts receivable, less the bank's reserves and less the loan balance outstanding. Fund availability at March 31, 2008 was \$2.0 million in addition to the \$3.0 million already borrowed.

Long Term Debt

In the first quarter of 2008, the Company received an offer of \$6.0 million of credit from Business Development Bank of Canada (BDC) to provide additional financing through two loans to the Company. The first loan of \$3.0 million is specific to the phase two completion of the Sheppard facility for expanding infrastructure, the building of a clean room and mezzanines for the transfer of Ellesmere processes to Sheppard. The loan will be collateralized by the Sheppard land and building, and includes the requirement for the guarantee of 25% of the loan balance by Coretec Holdings Inc. This building loan will be added to the balance of the \$2.5 million building loan which is approximately \$2.3 million at March 31, 2008. The combined \$5.3 million loan accrues interest at BDC's floating base rate, has a term through May 1st, 2028, and requires monthly payments of \$22,125 commencing June 1st 2008. In the interim, the Company is only paying interest on the \$2.3 million outstanding on the building loan.

During 2008, the Company will be moving certain processes from its Ellesmere facility into the Sheppard Facility. The Company has provided appropriate notice to its landlord at the Ellesmere facility that it will be vacating certain units by December 31, 2008. The second loan of US\$3.0 million is specific to the purchase of new equipment. The loan will be collateralized by a general security agreement from the Company providing a first security interest on equipment financed by BDC and the Sheppard building and land. The \$3.0 million equipment loan accrues interest at the 1-month US\$ LIBOR rate plus 4.1%, has a term through July 1st, 2015, and requires an initial monthly payment of \$32,750 on August 1st, 2008 and 83 consecutive monthly payments of US\$35,750. Both loans require a minimum consolidated working capital ratio for Coretec of 1.2:1 and a long term debt/tangible equity ratio not to exceed 0.75:1.

As part of the credit facility the Bank of Montreal (The Bank) holds a general security agreement on all of the Company's assets except for the Company's Toronto real estate, where it holds a second ranking charge behind the BDC.

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The terms of the bank facility require the Company to maintain a minimum consolidated tangible net worth of \$24.0 million over the term of the loan. The Company's consolidated tangible net worth as of March 31, 2008 as calculated based upon the terms of the credit facility was \$28 million. In addition, the terms of the bank facilities contain restrictions with respect to certain operating aspects of the Company including, but not limited to, its ability to pay dividends, make capital expenditures or incur additional indebtedness.

Due to the Bank's general security agreement, a banking priorities agreement must be completed by the Bank to allow the BDC priority of the collateral discussed above, and financial covenants and levels will need to be agreed upon among all parties. The form of the priorities agreement and the types of covenants and their levels have not been finalized as of this date, although management anticipates that this will be determined and agreed to during the second quarter of 2008.

**Indebtedness Chart at March 31, 2008**

<b>Lender</b>	<b>Amount Owing (\$CDN)</b>	<b>Collateral</b>	<b>Monthly Principal Payment</b>	<b>Interest Rate</b>	<b>Maturity</b>
BDC Loan	\$5,006,050 (total of 3 loans)	Land and Building at Toronto, Canada	\$84,033	7.40%, 8.25% and 8.50% variable interest	Various - December 2011 to November 2016
GE Finance Mortgage	\$1,379,565	Land and Building, Denver, Colorado	\$10,419	7.55% fixed interest	June 2032
Zions Bank Mortgage	\$1,568,403	Land and Building, Cleveland, Ohio	\$11,385	6.92% fixed rate every five years	November 2032
Key Finance Capital Lease	\$1,089,029	Specific Equipment	\$69,391	0.00%	June 2009
Bank of Montreal Revolving Line of Credit	\$2,959,967	General Security Agreement	Not Applicable	7.5% variable interest	March 2009

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**5. SHARE CAPITAL**

**Authorized**

Authorized share capital is comprised of an unlimited number of voting common shares with no par value.

**Issued and outstanding**

	March 31, 2008		December 31, 2007	
	Number of Shares	Cost of Shares	Number of Shares	Cost of Shares
<i>Transactions</i>		\$		\$
Total share capital issued	18,642,886	61,170	18,642,886	61,170
Less: Advance to shareholder		104		104
Closing balance	18,642,886	61,066	18,642,886	61,066

The advance to shareholder at March 31, 2008 is non-interest bearing, is due July 2011, and is secured by a promissory note and a pledge of common shares of the Company. The carrying value of the advances as at March 31, 2008 was \$104,190. The shares pledged as collateral for these advances had a fair market value of \$10,949 at March 31, 2008.

**Share options**

The Company has established a share option plan [the "Share Option Plan"]. Under the Share Option Plan, the Company may grant up to 1,900,000 options to purchase Common Shares to full-time employees, officers, directors and designated consultants of the Company. Options are granted at a price that is not less than the fair market value at the date of the grant. As at March 31, 2008, there were 997,334 [997,334 – December 31, 2007] options outstanding.

The options granted to date under the Share Option Plan become exercisable on a cumulative basis, as to one-third per year upon each of the first, second and third anniversaries of their issue. The options expire five years from the date of issue.

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The following is a stock option continuity schedule for the quarter ended March 31, 2008 as compared to the year ended December 31, 2007.

	March 31, 2008		December 31, 2007	
	Options	Weighted- average	Options	Weighted- average
	#	exercise price (\$)	#	exercise price (\$)
<b>Outstanding, beginning of period</b>	997,334	1.30	1,537,334	1.71
Granted	—	—	400,000	1.22
Exercised	—	—	(3,333)	0.80
Forfeited	—	—	(714,167)	1.27
Expired	—	—	(222,500)	4.05
<b>Outstanding, end of period</b>	997,334	1.30	997,334	1.30
<b>Exercisable, end of the period</b>	456,491	1.48	439,825	1.50

**Stock based compensation**

For the quarter ended March 31, 2008, the Company recognized stock based compensation expense of \$22,732. [(recovery \$24,795) – 2007] for stock options awards. The fair value of the options granted was estimated at the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 4.9%; expected life of 4.5 years; volatility of 95% and dividend yield of nil. During the current quarter nil [50,000 – 2007] options were granted with a weighted average fair value of nil [\$0.94 – 2007] per option.

**Long-Term Incentive Plan**

During 2006, the Company introduced a LTIP whereby one half of any bonus conferred to any member of the executive team is delivered to the LTIP Trust. The LTIP Trust will then use the funds to purchase shares of the Company. Any portion of the remaining bonus may be received in cash or voluntarily directed to the LTIP Trust. The shares are held by the LTIP Trust for 35 months (the deferral period), at which time they are provided to the executive (net of any required withholding taxes).

During the first quarter of 2008 no common shares were purchased by the LTIP Trust. The Company has recorded a compensation expense of \$18,000 representing the vesting of shares during the period.

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**6. MANAGEMENT OF CAPITAL**

The Company defines capital that it manages as the aggregate of its shareholders equity and interest bearing debt. The Company's objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

As at March 31, 2008, total managed capital was \$39.7 million (December 31, 2007 - \$41.8 million) comprised of shareholders' equity of \$28.7 million (December 31, 2007 - \$29.7 million) and interest-bearing debt of \$11.0 million (December 31, 2007 - \$12.2 million). \$1.1 million of the long-term debt at March 31, 2008 (December 31, 2007-\$1.2 million) is non-interest bearing and is therefore not included in the calculation of interest-bearing debt.

The Company manages its capital structure in a manner to ensure that it stays within its various financing covenants and to ensure that it has adequate resources to meet its financial needs.

As at March 31, 2008 and December 31, 2007 the above capital management criteria are illustrated as follows:

	March 31, 2008	December 31, 2007
<b>Business Development Bank of Canada Covenants</b>		
<b>Maximum term debt to equity ratio of 0.5:1</b>		
Term debt per Financial Statements	9,103	9,366
Equity per Financial Statements	28,690	29,698
Actual Ratio	0.32:1	0.32:1
Maximum debt to equity ratio	0.50:1	0.50:1
<b>Minimum working capital ratio of 1.2:1</b>		
Current assets as per Financial Statements	18,860	19,965
Current liabilities as per Financial Statements	13,690	13,794
Actual Ratio	1.38:1	1.45:1
Minimum working capital ratio	1.20:1	1.20:1
<b>Bank of Montreal Covenants</b>		
<b>Tangible book value minimum of \$24.0 million</b>		
Book Value per Financial Statements	28,690	29,698
Less: Leasehold improvements	(1,663)	(1,677)
Less: Deferred financing fees	(179)	(169)
Less: Deferred tax asset	-	-
Actual Tangible book value	26,848	27,852
Minimum Tangible book value	24,000	24,000

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**7. EARNINGS (LOSS) PER SHARE**

In accordance with the CICA Section 3500, "Earnings per Share", the earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The calculation for the quarters presented is as follows:

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Basic loss per share:</b>		
Loss	(1,049)	(547)
Weighted average number of common shares outstanding	18,642,886	18,639,960
Basic earnings (loss) per share	<b>(\$0.06)</b>	<b>(\$0.03)</b>
<b>Diluted loss per share:</b>		
Loss	(1,049)	(547)
Weighted average number of common shares outstanding	18,642,886	18,639,960
Dilutive effect of stock options	—	—
Adjusted weighted average number of common shares outstanding	18,642,886	18,639,960
Diluted loss per share	<b>(\$0.06)</b>	<b>(\$0.03)</b>

**8. INTEREST AND OTHER EXPENSES**

Interest and other expenses comprise the following:

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Interest expense and bank charges	208	189
Amortization of deferred finance charges	5	25
Interest Income – Vendor take-back mortgage	(13)	(20)
	200	194

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**9. SUPPLEMENTAL CASH FLOW INFORMATION**

The components of the net change in non-cash working capital balances related to operations consists of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	(278)	(132)
Inventories	(331)	(600)
Prepaid expenses	(57)	(170)
Income taxes recoverable	—	(15)
Accounts payable and accrued liabilities	971	(845)
	305	(1,762)

**10. SEGMENT INFORMATION**

The Company has one reportable business segment - the design and manufacture of PCBs. Geographic sales information has been provided to distinguish sales to customers in the U.S. and Europe from sales to customers in Canada.

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Sales to customers in		
Canada	6,046	7,400
United States	11,399	14,361
Europe/Other	1,041	1,057
	18,486	22,818

**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivable, available-for sale financial assets and other financial liabilities.

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The Company's financial assets and liabilities are recorded and measured as follows:

<u>Asset/Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash	Held –for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized costs
Due from related party	Loans and receivables	Amortized costs
Mortgage receivable	Loans and receivables	Amortized costs
Income taxes recoverable	Loans and receivables	Amortized costs
Accounts payable and accrued liabilities	Other liabilities	Amortized costs
Long-term debt	Other liabilities	Amortized costs

Other balance sheet accounts, such as inventories, prepaid expenses, other assets, capital assets are not within the scope of the new accounting standards as they are not financial instruments.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Embedded derivatives include elements of contracts whose cash flows move independently from the host contract. Management reviewed contracts and determined that the Company does not currently have any embedded derivatives in these contracts that require separate accounting and disclosure.

The carrying values of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. The fair values of other financial assets and liabilities have been calculated and determined to be not materially different than their carrying values.

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*Foreign Exchange Risks Forward Contracts*

*Risks arising from financial instruments and risk management*

The Company's activities expose it to a variety of financial risks; market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is the responsibility of the corporate finance function. The Company's domestic and foreign operations along with the corporate finance function, identify, evaluate and, where appropriate, hedge financial risks. Material risks are monitored and are regularly discussed with the audit committee of the board of directors.

*Foreign exchange risk*

The Company operates in Canada and the U.S.A. The functional and reporting currency of the Company is Canadian dollars. Foreign exchange risk arises because the amount of the local currency receivable or payable for the transactions denominated in the foreign currencies may vary due to changes in the exchange rates ("Transaction exposures") and because the non Canadian dollar denominated financial statements of the Company may vary on consolidation into Canadian dollar ("translation exposures")

The most significant transaction exposure arises in the Canadian operations. The balance sheet of the Canadian operations includes U.S. dollar denominated debt. The Canadian operations are required to revalue the Canadian dollar equivalent of the U.S. dollar denominated debt at each period end. In addition, approximately 80% of revenues of the Canadian operations and approximately 20% of its operation expenses are transacted in U.S. dollars. As a result, the Company may experience transaction exposures because of volatility in the exchange rate between the Canadian and U.S. dollar. The two U.S. operations each have a U.S. denominated mortgage.

The objective of the Company's foreign exchange risk management activities is to minimize transactions exposures and the resulting volatility of the Company's earnings. The Company manages the risk by entering into foreign exchange forward contracts. The Company's U.S. dollar debt reduces foreign currency fluctuations exposure of its U.S. denominated assets.

The Company is exposed to market risk in foreign currency rates as a substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. Accordingly, to minimize currency exposure, the Company converts a portion of its U.S. dollar cash flows to Canadian dollars through forward contracts. As at March 31, 2008 the Company had entered into forward foreign exchange contracts to sell U.S. \$5.0 million dollars at varying intervals over the next ten months at an

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average US dollar to Canadian dollar exchange rate of 1.021. The fair value of forward contracts was a loss of \$42,921 as at March 31, 2008 that has been included in income.

*Interest rate risk*

The Company's interest rate risk primarily arises from its floating rate debt in particular its revolving line of credit and the BDC loan. At March 31, 2008, \$8.1 million of the Company's total debt, is subject to movements in floating interest rates.

*Credit Risk*

Credit risk arises from cash and cash equivalents held with banks and financial institutions, foreign exchange forward contracts as well as credit exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company's requirements, a cash deposit is received before any services are provided. As at March 31, 2008, the Company held deposits of \$0.1 million.

The carrying amount of accounts receivable are reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within the operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

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[tabular amounts in thousands except share amounts]

March 31, 2008

At March 31, 2008 83% [79% - December 31, 2007] of trade accounts receivable are denominated in U.S. dollars.

*Liquidity risk*

Liquidity risk arises through having excess of financial obligations over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at March 31, 2008, the Company was holding cash and cash equivalents of \$0.1 million and had undrawn lines of credit available to it of \$2.0 million.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended December 31, 2007.

**12. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.

**13. SUBSEQUENT EVENT**

On April 3, 2008 the Company received \$1.06 million in connection with the discharge of the mortgage receivable and accumulated interest.