CHAMPION INDUSTRIES INC
Form 8-K
January 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) January 27, 2011

Champion Industries, Inc.

(Exact Name of Registrant as Specified in Its Charter)

West Virginia

(State or Other Jurisdiction of Incorporation)

0-21084	55-0717455
(Commission File No.)	(IRS Employer Identification No.)

2450 First Avenue P. O. Box 2968 Huntington, West Virginia	25728
(Address of Principal Executive Offices)	(Zip Code)

(304) 528-2700

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

0 Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

0 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

0 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

0 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

INFORMATION TO BE INCLUDED IN THE REPORT

Item 2.02 Results of Operations and Financial Condition

On January 27, 2011, Champion Industries, Inc. announced its financial results for the year ended October 31, 2010. The press release announcing financial results for the three and twelve months ended October 31, 2010 is furnished as Exhibit 99.1 and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(c) The exhibits listed on the Exhibit Index on page 3 of this Form 8-K are filed herewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	CHAMPION INDUSTRIES, INC.
	(Registrant)
Date: January 27, 2011	
	/s/ Todd R. Fry
	Todd R. Fry, Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release dated January 27, 2011 captioned "CHAMPION ANNOUNCES IMPROVED RESULTS FOR 2010 AND FOURTH QUARTER".

L="Workstation" -->

No options were repriced during the year ended December 31, 2005

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Securities Under Option to Directors and Named Executive Officers as at December 31, 2005

Names	**Securities Under Options Granted (#)**	**Exercise or Base Price (US$/Security)**	**Market Value of Securities Underlying Options on the Date of Grant (US$/Security)**	**Expiration Date**
Daniel Bertrand	10,000	2.57	2.57	4/30/2013
Daniel Bertrand	5,000	1.99	1.99	1/16/2013
Daniel Bertrand	12,500	6.28	6.28	2/15/2012
Daniel Bertrand	75,000	2.28	2.28	11/8/2010
Daniel Bertrand	14,000	3.58	3.58	11/5/2010
Guy Fauré	25,000	2.57	2.57	4/30/2013
Guy Fauré	7,500	1.99	1.99	1/16/2013
Guy Fauré	26,500	6.28	6.28	2/15/2012
Guy Fauré	150,000	2.28	2.28	11/8/2010
Guy Fauré	29,000	3.58	3.58	11/5/2010
Claude E. Forget	25,000	2.28	2.28	11/18/2010
David Goldman	7,500	2.57	2.57	4/30/2013

Names	Securities Under Options Granted (#)	Exercise or Base Price (US$/Security)	Market Value of Securities Underlying Options on the Date of Grant (US$/Security)	Expiration Date
David Goldman	7,500	1.99	1.99	1/16/2013
David Goldman	75,000	2.28	2.28	11/8/2010
David Goldman	29,000	3.58	3.58	11/5/2010
Irwin Kramer	25,000	2.28	2.28	11/8/2010
David Schwartz	25,000	2.28	2.28	11/8/2010
Joel Lamantia	2,500	1.99	1.99	1/16/2013
Joel Lamantia	4,700	6.28	6.28	2/15/2012
Joel Lamantia	15,000	2.28	2.28	11/8/2010
Joel Lamantia	4,500	3.58	3.58	11/5/2010
Patrick Hopf	2,500	1.99	1.99	1/16/2013
Patrick Hopf	6,800	6.28	6.28	2/15/2012
Patrick Hopf	40,000	2.28	2.28	11/8/2010
Patrick Hopf	6,500	3.58	3.58	11/5/2010
Patrick Hopf	3 ,334	1.53	1.53	2/25/2009

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Share Ownership

The information with respect to shares beneficially owned, controlled or directed by directors of the Company or Named Executive Officers is in each instance based upon information furnished by the person concerned. The Company s articles of incorporation provide for Common Shares as the only authorized class of shares, all of which have the same rights. Options to acquire shares held by directors or Named Executive Officers, are listed in the above table entitled *Securities Under Option to Directors and Named Executive Officers* and not included in the information below. To the knowledge of the Company, the following directors and Named Executive Officers hold the following shares of the Company as at February 28, 2006.

Director/Named Executive Officer	Number of Company Shares Held	% of Total Number of Shares Outstanding
Guy Fauré, President & CEO, Director Mamma.com Inc.	3,500	0.02%
Claude E. Forget, Director	30,000	0.21%
David Goldman, Executive Chairman, Director Mamma.com Inc.	75,000	0.52%

Irwin Kramer, Director	2,000	0.01%
Dr. David Schwartz, Director	7,000	0.05%
Martin Bouchard, Executive Vice-President, Chief Strategist and Technology Officer	669,706	4.67%
Daniel Bertrand, Executive Vice-President and Chief Financial Officer Mamma.com Inc.	Nil	Nil
Patrick Hopf, Vice-President-Business Development Mamma.com Inc.	Nil	Nil
Eric Bouchard, Vice-President-Products	334,853	2.33%

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Employees

The following table provides a breakdown of persons employed by main category of activity for each of the past five financial years.

Number of Employees by Category of Activity			
Year	**Mamma.com Inc.**	**Copernic Technologies Inc.**	**Discontinued Operations (IBT and Digital Arrow)**
2005	39	36	0
2004	53	--	12
2003	37	--	65
2002	43	--	79
2001	40	--	84

Pension and Retirement Benefits

The Company does not set aside nor accrue any amounts to provide pension, retirement or similar benefits. Copernic has a Structured Group Registered Retirement Savings Plan which manages the employees contribution to a maximum of 2% of their base salaries. Copernic matches the employees contribution through a Deferred Profit Sharing Plan.

Compensation of Directors

During the fiscal year ended December 31, 20056, directors were each paid $6,250 quarterly. Effective April 1, 2005 the Chair of the Board received $12,500/annum and the Chair of the Audit Committee received a payment of $10,000/annum and the Chair of the Compensation and the Nominating, and Governance Committees received a payment of $5,000/annum. The directors received a combined fee of $1,000 for attending board and committee meetings on the same day and members of the Audit, Compensation and Nominating and Governance committees receive a $1,000 payment if a committee meeting is held on a day other than the day of a Board meeting and, if a board or committee meetings is held via teleconference, directors received a payment of $500.

Robert Raich was a director of the Company until March 11, 2005 and is a partner of Spiegel Sohmer, a general partnership of attorneys. In 2005, Spiegel Sohmer billed the Company for the amount of $233,134 for legal services and other expenses.

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Directors and Officers Insurance

The Company has purchased liability insurance covering each director and officer of the Company. The present insurance policy provides coverage for the directors, officers and the Company for liability up to $10,000,000 and expires on March 28, 2007. In addition to this coverage, a supplemental $5,000,000 policy was subscribed for directors and officers on March 28, 2006 effective for twelve months.

Indebtedness of Directors and Officers

During the most recently completed financial year, none of the directors and executive officers of the Company and none of the management nominees for election as a director nor any associate of the foregoing is, or was at any time since the beginning of the most recently completed financial year, indebted to the Company or any of its subsidiaries.

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ITEM 17. FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). There are certain measurement differences between Canadian GAAP and U.S. GAAP. Differences which relate to the Company are summarized in note 26 to our consolidated financial statements.

RSM Richter S.E.N.C.R.L./LLP
Comptables agréés
Chartered Accountants

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Independent Registered Public Accounting Firms Reports

To the Shareholders and Board of Directors of Mamma.com Inc.

We have audited the accompanying consolidated balance sheets of Mamma.com Inc. as at December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montreal, Canada

March 15, 2006, except for note 27 which is dated March 28, 2006

RSM Richter S.E.N.C.R.L. est un cabinet indépendant membre de RSM International, association de cabinets indépendants d'expertise comptable et de services conseils.

RSM Richter LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

Mamma.com Inc

Consolidated Balance Sheets

As at December 31, 2005 and 2004

(Expressed in U.S. dollars)	**2005**	**2004**
	$	**$**
Assets		
Current assets		
Cash and cash equivalents	4,501,201	20,609,089
Restricted cash (note 5)	-	148,000
Temporary investments (note 7)	4,013,312	6,874,155
Accounts receivable (note 8)	2,623,940	2,502,535
Income taxes receivable	606,226	120,590
Prepaid expenses	295,288	129,390
Future income taxes (note 20)	33,505	-
Current assets of discontinued operations (note 5)	9,694	274,770
	12,083,166	30,658,529
Future income taxes (note 20)	13,483	-
Income tax credit	54,912	-
Assets of discontinued operations (note 5)	-	1,882,857
Investments (note 9)	720,000	720,000
Property, plant and equipment (note 10)	598,758	304,624
Intangible assets (note 11)	8,601,848	753,778
Goodwill (note 11)	16,255,031	846,310
	38,327,198	35,166,098

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	2,690,943	2,244,958
Deferred revenue	249,953	233,459
Income tax payable	8,062	-
Liabilities of discontinued operations (note 5)	189,223	652,109
	3,138,181	3,130,526
Future income taxes (note 20)	2,672,036	-
Contingencies and commitments (note 24)		
Shareholders Equity		
Capital stock (note 13)		
Authorized		
Unlimited common shares, no par value		
Issued and outstanding		
14,340,864 common shares (2004-12,263,029)	95,298,234	90,496,088
Additional paid-in capital (note 14)	5,985,077	5,255,249
Deferred stock-based compensation (note 14)	(735,175)	(1,333,443)
Cumulative translation adjustment	370,369	360,884
Accumulated deficit	(68,401,524)	(62,743,206)
	32,516,981	32,035,572
	38,327,198	35,166,098

See accompanying notes.

Approved by the Board of Directors

/s/ David Goldman
David Goldman, Executive Chairman of the Board

/s/ Irwin Kramer
Irwin Kramer, Director and Chair of the Audit Committee

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Mamma.com Inc

Consolidated Statements of Operations

For the years ended December 31

(Expressed in U.S. dollars)	**2005**	**2004**	**2003**
	$	**$**	**$**

Revenues (note 16)	9,464,560	14,636,318	8,938,863
Cost of revenues (note 17)	4,204,030	6,539,213	3,991,265
Gross Margin	5,260,530	8,097,105	4,947,598
Expenses			
Marketing, sales and services	2,023,925	2,188,488	1,600,643
General and administration	5,692,092	3,567,247	2,255,099
Product development and technical support (note 21)	1,286,345	891,541	599,383
Amortization of property, plant and equipment	106,788	133,123	140,090
Amortization of intangible assets	242,031	191,218	178,509
Realized gain on disposal of investment (note 9)	-	-	(32,499)
Write-down of investment (note 9)	-	365,286	-
Interest and other income	(768,738)	(233,506)	(15,869)
Loss on foreign exchange	47,080	68,275	210,888
	8,629,523	7,171,672	4,936,244
Earnings (loss) from continuing operations before income taxes	(3,368,993)	925,433	11,354
Provision for (recovery of) income taxes (note 20)	(26,010)	554,680	(77,636)
Earnings (loss) from continuing operations	(3,342,983)	370,753	88,990
Results of discontinued operations, net of income taxes (note 5)	(2,315,335)	733,654	(300,053)
Net earnings (loss) for the year	(5,658,318)	1,104,407	(211,063)
Basic and diluted earnings (loss) per share from continuing operations	(0.27)	0.03	0.01
Basic and diluted earnings (loss) per share from discontinued operations	(0.19)	0.07	(0.04)
Basic and diluted net earnings (loss) per share	(0.46)	0.10	(0.03)

See accompanying notes.

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Mamma.com Inc

Consolidated Statements of Shareholders Equity

For the years ended December 31, 2005, 2004 and 2003

(Expressed in U.S. dollars)	Number of common shares	Common shares $	Additional paid-in capital $	Deferred stock-based compensation $	Cumulative translation adjustment $	Accumulated deficit $
Balance, December 31, 2002	6,094,842	69,873,994	750,111	(10,667)	(275,693)	(63,636,550)
Effect of changes on shares and warrants issued for financial services	-	6,333	-	10,667	-	-
Warrants issued for financial services	-	-	84,566	-	-	-
Options granted	-	-	388,391	(376,171)	-	-
Amortization of deferred stock-based compensation	-	-	-	113,365	-	-
Options exercised	129,678	185,887	(12,220)	-	-	-
Warrants exercised	284,090	455,965	(44,034)	-	-	-
Translation adjustment for the year	-	-	-	-	717,257	-
Net loss for the year	-	-	-	-	-	(211,063)
Balance, December 31, 2003	6,508,610	70,522,179	1,166,814	(262,806)	441,564	(63,847,613)
Warrants issued for financial services	-	-	260,301	-	-	-
Options granted	-	-	1,378,787	(1,378,787)	-	-
Amortization of deferred stock-based compensation	-	-	-	301,944	-	-
Options exercised	255,561	483,593	(82,127)	-	-	-
Warrants exercised	3,892,878	6,430,500	(671,687)	-	-	-
Forfeited options	-	-	(18,967)	6,206	-	-
Shares issued for acquisition of Digital Arrow	90,000	740,782	-	-	-	-
Shares and warrants issued on private placement	1,515,980	13,158,329	3,441,652	-	-	-
Share issue cost	-	(839,295)	(219,524)	-	-	-
Translation adjustment for the year	-	-	-	-	(80,680)	-
Net earnings for the year	-	-	-	-	-	1,104,407
Balance, December 31, 2004	12,263,029	90,496,088	5,255,249	(1,333,443)	360,884	(62,743,206)
Redemption of common shares (note 13)	(304,665)	(2,248,302)	1,195,147	-	-	-
Options granted	-	-	994,908	(994,908)	-	-
Options exercised	2,500	10,408	(3,984)	-	-	-
Amortization of deferred stock-based compensation	-	-	-	136,933	-	-

Options forfeited	-	-	(1,456,243)	1,456,243	-	-
Shares issued for acquisition of Copernic (note 6)	2,380,000	7,040,040	-	-	-	-
Translation adjustment for the year	-	-	-	-	9,485	-
Net loss for the year	-	-	-	-	-	(5,658,318)
Balance, December 31, 2005	14,340,864	95,298,234	5,985,077	(735,175)	370,369	(68,401,524)

See accompanying notes.

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Mamma.com Inc

Consolidated Statements of Cash Flows

For the years ended December 31

(Expressed in U.S. dollars)	**2005** **$**	**2004** **$**	**2003** **$**
Cash flows from (used for)			
Operating activities			
Earnings (loss) from continuing operations	(3,342,983)	370,753	88,990
Adjustments for			
Amortization of property, plant and equipment	106,788	133,123	140,090
Amortization of intangible assets	242,031	191,218	178,509
Realized gain on disposal of property, plant and equipment	-	-	(455)
Realized gain on disposal of investment (note 9)	-	-	(32,499)
Employee stock-based compensation	136,933	281,367	94,654
Former Board member compensation paid by issuance of capital stock	-	-	12,220
Write-down of investment (note 9)	-	365,286	-
Financial fees paid by issuance of capital stock and warrants	-	260,301	101,566
Future income taxes	(13,964)	400,855	(77,636)
Income tax credits	-	81,505	(77,925)
Unrealized loss on foreign exchange	-	14,622	-
Net change in non-cash working capital items (note 19)	1,420,013	(302,567)	(969,323)
Cash from (used for) operating activities from continuing operations	(1,451,182)	1,796,463	(541,809)
Cash from (used for) operating activities from discontinued operations	(630,288)	(790,370)	479,852
	(2,081,470)	1,006,093	(61,957)

Investing activities			
Business acquisitions (note 6)	(15,851,922)	-	-
Purchase of intangible assets	(54,943)	(9,434)	(3,026)
Purchase of property, plant and equipment	(85,687)	(70,284)	(47,432)
Net decrease (increase) in temporary investments	2,860,843	(6,850,979)	(6,217)
Proceeds on disposal of investments	-	-	32,499
Proceeds on disposal of property, plant and equipment	-	-	1,199
Cash used for investing activities from continuing operations	(13,131,709)	(6,930,697)	(22,977)
Cash from (used for) investing activities from discontinued operations	-	434,975	(72,190)
	(13,131,709)	(6,495,722)	(95,167)
Financing activities			
Issuance of capital stock	6,424	22,760,261	585,598
Share issue costs	-	(1,058,819)	-
Redemption of common shares	(1,053,155)	-	-
	(1,046,731)	21,701,442	585,598
Effect of foreign exchange rate changes on cash and cash equivalents	4,022	79,375	250,063
Net change in cash and cash equivalents and restricted cash during the year	(16,255,888)	16,291,188	678,537
Cash and cash equivalents Beginning of year	20,757,089	4,465,901	3,787,364
Cash and cash equivalents and restricted cash End of year	4,501,201	20,757,089	4,465,901
Cash and cash equivalents comprise:			
Cash	4,501,201	1,565,600	2,265,000
Short-term investments	-	19,043,489	2,200,901
	4,501,201	20,609,089	4,465,901
Restricted cash	-	148,000	-
	4,501,201	20,757,089	4,465,901
Supplemental cash flow information			
Cash paid for interest	16,097	673	328
Cash paid for income taxes	17,189	288,147	-

See accompanying notes.

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1 Nature of business

Mamma.com Inc. is a provider of search technology for both the Web and desktop space, delivered through its properties, www.mamma.com and www.copernic.com, respectively. The Company, through its Mamma Media Solutions brand, is also a provider of online marketing solutions to advertisers, providing keyword and graphic ad placement on its publisher network.

Mamma.com The Mother of All Search Engines® is a metasearch engine for the Internet; it makes it easier and faster for people to find information by gathering results from the Internet.

Through its Copernic Desktop Search product, Copernic Technologies Inc. (Copernic) develops cutting edge search solutions bringing the power of a sophisticated, yet easy-to-use search engine right to the user s PC. It allows for instant searching of files, emails, and email attachments stored anywhere on a PC hard drive.

2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). There are certain measurement differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP). Differences which relate to the Company are summarized in note 26.

a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated on consolidation.

b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in these financial statements include the allowance for doubtful accounts, recovery of future income taxes, goodwill and annual goodwill impairment test, useful lives and impairment of long-lived assets, stock-based compensation costs, valuation of investments, determination of the fair value of the intangible assets on recent acquisitions, determination of the fair value of the warrants issued on the private placement and the resulting impact on the allocation of the proceeds between the shares and warrants. Actual results could differ from those estimates.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances available, and highly liquid investments with an initial term of three months or less that are stated at cost, which approximates market value.

d) Temporary investments

Temporary investments are valued at the lower of cost and market value.

e) Income tax credits

Income tax credits are accounted for using the cost reduction method. Under this method, tax credits relating to eligible expenditures are deducted from the cost of the related assets or included in the consolidated statements of operations as a reduction of the related expenses. Tax credits are recorded in the year in which the expenditures are incurred provided there is reasonable assurance of realization.

f) Investments

The Company has investments in equity instruments of privately-held companies. These investments are generally accounted for under the cost method, as the Company does not have the ability to exercise significant influence over operations. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is judged to be other than temporary. The Company monitors its investments for impairment by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and records reductions in carrying values when necessary. The fair value for privately held securities is estimated using the best available information as of the valuation date, including the quoted market prices of comparable public companies, recent financing rounds of the investee and other investee specific information.

g) Property, plant and equipment

Property, plant and equipment are recorded at cost, less applicable tax credits and accumulated amortization. Amortization is calculated using the following methods and annual rates or period:

Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight-line	Duration of lease

h) Intangible assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization. The Company provides for the amortization of intangible assets over their estimated useful lives using the straight-line method at the following annual rates:

Trade names	14%	to	25%
Technology	20%	to	25%
Customer relationships	10%	to	33%
Software and patents	25%		

i) Goodwill

Goodwill represents the excess of purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired. Goodwill related to business combinations is not amortized.

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company s reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for

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impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value.

j) Impairment of long-lived assets

The Company assesses the carrying value of its long-lived assets, which include property, plant and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of its estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value.

k) Revenue recognition

The Company recognizes revenue from search advertising, graphic advertising services, sale of software and support services when the following criteria are satisfied:

i) persuasive evidence of an arrangement exists;

ii) service is performed;

iii) the fee is fixed or determinable;

iv) collectibility is reasonably assured.

Search service revenue is generated as users click on an advertiser s sponsored link, giving rise to direct revenue or a revenue share if the paid placement was provided by a third party provider (partner). Advertisers buy key words, and when these key words are searched by a user, the advertiser s website will be listed in a premium position in the search results. Advertisers are charged on a pay-per-click basis. Revenue from such clicks is recognized as the clicks occur, provided the above criteria are met.

Graphic advertising revenue is generated from advertising delivered on a Web page, at an agreed rate per thousand impressions delivered, or based on user clicks on displayed advertising graphic advertisement. Advertising includes different size banners, pop-ups and rich media which are targeted through the Company s network of publishers (members). The publisher network consists of small to medium size websites that subscribe to the Company s service through an on-line contract. Revenue from advertising arrangements is recognized as the impressions are delivered or as clicks on displayed graphic advertisement occur, provided the above criteria are met and that no significant Company obligations or commitments relating to a minimum number of impressions remain.

The majority of arrangements for all types of revenue have terms of less than one year and may be terminated at any time by the advertiser. In accordance with Emerging Issues Committee 123 Reporting Revenue Gross as a Principal versus Net as an Agent , search and graphic advertising derived from arrangements that involve services supplied by partners and members respectively is reported gross of the payment to them. This revenue is reported gross due to the fact that the Company is the primary obligor to the advertisers who are customers of the advertising service.

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Support revenue is recognized on a straight-line basis over the term of the agreements.

Deferred revenue is recorded when payments are received in advance of the Company s performance in the underlying agreement on the accompanying consolidated balance sheets.

l) Research and development costs

Research costs are expensed as incurred. Development costs are also expensed as incurred unless such costs meet the criteria under generally accepted accounting principles for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product which the Company intends to produce and market, there must be a clearly defined market for the product, and the Company must have the resources, or access to the resources, necessary to complete the development. The Company has not deferred any such development costs during the years ended December 31, 2005 and 2004.

m) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the future income tax assets will not be realized.

n) Foreign currency translation

The functional and reporting currency of the Company is the U.S. dollar. The functional currency of the Company s subsidiaries is the local currency. Accordingly, the financial statements of the Company s subsidiaries, except for Copernic, have been translated into the reporting currency as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities have been translated at the historical exchange rate. Revenue and expenses have been translated at the average exchange rate for each year. All gains or losses resulting from the application of this translation method are included in net earnings (loss) for the year.

Copernic follows the current rate method of accounting for translation of foreign currency amounts into Canadian dollars. Under this method, all assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Exchange gains or losses resulting from translation are included in the cumulative translation adjustment. Changes in the cumulative translation adjustment during the year result solely from the application of this translation method.

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o) Foreign currency transactions

Transactions concluded in currencies other than the functional currency have been translated as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenue and expenses have been translated at the average exchange rate for each period; non-monetary assets and liabilities have been translated at the rates prevailing at the dates of the respective transactions.

Exchange gains and losses arising from such transactions are included in net earnings (loss) for the year.

p) Earnings (loss) per share

Basic earnings (loss) per share are calculated using the weighted average number of shares outstanding during each of the years (note 15).

Diluted earnings (loss) per share are calculated based on the weighted average number of common shares outstanding in each of the years, plus the effects of dilutive common share equivalents, such as options and warrants outstanding. This method requires that the dilutive effect of outstanding options and warrants be calculated using the treasury stock method, as if all dilutive options and warrants had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year.

q) Comparative figures

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

3 Change in accounting policies

a) For changes affecting 2003

Stock-based compensation and other stock-based payments

During the fourth quarter of 2003, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees. Under this method, the fair value of options granted to employees is charged to expense over the future vesting period. In accordance with the transitional provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments , the Company has elected to apply this new method prospectively to options granted to employees on or after January 1, 2003. Consequently, prior period financial statements have not been restated; however, the Company continues to provide pro forma disclosures as if the fair value method of accounting had been applied retroactively.

Impairment of long-lived assets

CICA Handbook section 3063, Impairment of Long-Lived Assets , provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061, Property, Plant and Equipment . The provisions of the Section require an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which its carrying amount exceeds its fair value. The adoption of this section did not have a significant impact on the

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financial statements.

Disposal of long-lived assets and discontinued operations

CICA Handbook section 3475, Disposal of Long-Lived Assets and Discontinued Operations , provides guidance on recognizing, measuring, presenting and disclosing long-lived assets to be disposed of and replaces the disposal provisions in Section 3475, Discontinued Operations and Section 3061, Property, Plant and Equipment . The Section provides criteria for classifying assets as held for sale to be measured at the lower of carrying value and fair value less costs to sell, provides criteria for classifying a disposal as a discontinued operation and specifies presentation and disclosure for discontinued operations and other disposals of long-lived assets. The adoption of this section did not have a significant impact on the financial statements.

b) For changes affecting 2004

Asset retirement obligations

CICA Handbook section 3110, Asset Retirement Obligations , focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The adoption of this section did not have a significant impact on the financial statements.

c) For changes affecting 2005 and future years

Consolidation of variable interest entities

CICA Accounting Guideline 15, Consolidation of Variable Interest Entities , provides clarification on the consolidation of those entities defined as variable interest entities , when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are commonly referred to as special purpose entities. The guideline comes into effect for interim periods beginning on or after November 1, 2004. The adoption of this section did not have a significant impact on the financial statements.

Financial instruments

On April 1, 2005, the CICA issued three new Handbook sections: Section 1530 Comprehensive Income , Section 3855 Financial Instruments Recognition and Measurement , and Section 3865 Hedges . These new sections apply to fiscal years beginning on or after October 1, 2006 with earlier adoption permitted as of the beginning of a fiscal year ending on or after December 31, 2004.

Section 3855 Financial Instruments Recognition and Measurement requires all financial instruments to be classified as either Held to Maturity, Loans and Receivables, Held for Trading, or Available for Sale. The Held to Maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity. Loans and Receivables and Held to Maturity investments are accounted for at amortized cost. Securities that are acquired for selling in the near term are classified as Held for Trading are accounted for at fair value with realized and unrealized gains and losses reported in net income. The remaining financial instruments are classified

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as Available for Sale and are measured at fair value with unrealized gains and losses, not affecting income, but reported in a new category in Shareholders equity called Other Comprehensive Income.

Section 3865 Hedges which replaces Accounting Guideline 13 Hedging Relationships requires that all derivatives, including hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company s exposure that the fair value of an asset or liability will change due to a particular risk are recognized in net income together with those of the respective offsetting hedged item. However, changes in the fair value of a derivative which hedges the Company s exposure to changing cash flows are accumulated in Other Comprehensive Income until the transaction being hedged affects net income.

Section 1530 Other Comprehensive Income , a new category in the Shareholders equity section, includes in addition to the items mentioned above, unrealized foreign currency translation gains and losses, net of hedging activities.

The Company will adopt these recommendations for its fiscal year 2007.

4 Functional currency

During the first quarter of fiscal 2004, the Company determined that the functional currency of its wholly owned subsidiary, Mamma.com Enterprises Inc., had clearly changed from the Canadian dollar to the U.S. dollar as at the beginning of the quarter. As a result of this change, which has been applied prospectively from January 1, 2004, transactions entered into by Mamma.com Enterprises Inc. which are denominated in currencies other than the U.S. dollar are translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date.

Non-monetary assets and liabilities are translated into U.S. dollars at historical exchange rates. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing at the dates of the respective transactions. Gains and losses resulting from translation of monetary assets and liabilities into U.S. dollars are reflected in the consolidated statements of operations.

Prior to this change, the functional currency of Mamma.com Enterprises Inc. was the Canadian dollar. Accordingly, the financial statements of Mamma.com Enterprises Inc. were translated from Canadian dollars into U.S. dollars using the current rate method. Gains and losses resulting from translation of these financial statements were included in the cumulative translation adjustment in shareholders equity. The translated amounts for non-monetary items as at January 1, 2004 are the historical basis for those items in subsequent periods.

5 Discontinued operations

Digital Arrow LLC and High Performance Broadcasting, Inc.

In September 2005, following the poor performance of Digital Arrow LLC and High Performance Broadcasting, Inc. (Digital Arrow) located in Florida, management decided to discontinue its subsidiary s operations. The Company has therefore not renewed the lease in Florida and recorded closing costs.

Consequently, the results of the operations of Digital Arrow were recorded as discontinued operations and the results of the Company for the years ended December 31, 2005 and 2004 were reclassified to account for the closure

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of the subsidiary s operations. The Company had acquired Digital Arrow on June 10, 2004, a privately held marketing company that was engaged in the distribution of on-line, opt-in e-mail marketing solutions via the Internet. In that acquisition, the Company s wholly owned subsidiary, Mamma.com USA, Inc., entered into a Securities Purchase Agreement with Digital Arrow and their equity holders, pursuant to which Mamma.com USA, Inc. acquired all equity interests in Digital Arrow. The consideration for the acquisition, including costs directly related to the acquisition, consisted of $1,264,210 in cash, net of cash acquired, and 90,000 of the Company s common shares. The fair value of the Company shares issued to owners of Digital Arrow was determined to be $8.23 per share. This value has been determined using the average closing price of the Company s common stock for five days before and five days after March 3, 2004, the date the significant terms and conditions of the transaction were agreed to and publicly announced. The operations of the business have been included in these financial statements since June 1, 2004.

This acquisition has been accounted for using the purchase method. The fair value of the net assets acquired was $1,535,744 and goodwill of $556,196, for a total purchase price of $2,091,940. From this purchase price, $740,782 was paid by issuance of the Company s common shares, $86,948 was cash acquired at the transaction for a cash paid net of cash acquired of $1,264,210.

IBT

On September 9, 2003, the Company announced that it had received and accepted, subject to completion of due diligence, an offer for the sale of its wireless billing subsidiary, IBT. The results of operations and cash flows for IBT have been reported separately as discontinued operations in the consolidated statements of operations and cash flows, and the remaining assets and liabilities of IBT have been segregated on the consolidated balance sheets. Comparative figures for the year ended December 31, 2004 and 2003 have been reclassified in order to comply with this presentation.

On February 12, 2004, the Company concluded the sale of IBT s assets which include contracts, customer lists, intellectual property, fixed assets and tangible and intangible assets relating to the business.

The proceeds of disposal was $1,699,185 with a gain on disposal of $1,588,923 which has been included in the Results of discontinued operations line in the consolidated statements of operations. The Company was entitled to additional consideration of up to a maximum of $250,000 should certain events occur or conditions be met. As of December 31, 2004, an amount of $100,000 of such contingent consideration had been earned by the Company and recorded in results of discontinued operations. The Company recorded, for 2004, net costs for an amount of $544,927 which represented the net of revenue of $621,296 and expenses of $1,166,223 including closing costs. An amount of $148,000 has been kept in escrow and has been released in 2005. In 2005, no events occurred or conditions were met for the remaining contingent consideration of $150,000.

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The gain on disposal is detailed as follows:

	$
Proceeds	1,699,185
Assets disposed and related fees	
Equipment	210,916
Other assets, net	(22,843)
Legal and other fees	133,579
Cumulative translation adjustment related to the sales of IBT	(211,390)
	110,262
Gain on disposal	1,588,923

Summary of assets and liabilities of discontinued operations

	As at December 31, 2005	2004
	$	$
Current assets		
Accounts receivable	9,694	268,246
Other current assets	-	6,524
	9,694	274,770
Assets		
Property, plant and equipment	-	70,195
Intangible assets	-	1,256,466
Goodwill	-	556,196
	-	1,882,857
Liabilities		
Accounts payable and accrued liabilities	189,223	543,584
Deferred revenue	-	23,525
Income taxes payable	-	85,000
	189,223	652,109

Summary of discontinued operations

	2005	2004	2003
	$	$	$
Revenues	474,409	1,793,977	6,493,986
Earnings (loss) before income taxes	(2,315,335)	733,654	(32,220)
Net earnings (loss)	(2,315,335)	733,654	(300,053)

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For the years 2005 and 2004, earnings (loss) before income taxes are the same as net earnings (loss). In 2004, this was due to benefits arising to prior years tax losses not previously recognized. In 2003, the Company recorded a provision for income taxes due to a tax assessment disallowing research and development tax credits claimed in prior years.

6 Business acquisitions

Copernic Technologies Inc.

On December 22, 2005, the Company acquired 100% of the issued and outstanding securities of Copernic including an amount to cover Copernic's outstanding stock appreciation right obligations.

Copernic develops cutting-edge search and information management solutions that enable home and business PC users to maximize their information assets and become more efficient and proactive in their daily activities. Copernic is dedicated to providing its customers with cost-effective Web and desktop search technology that enables better decision-making and increased productivity.

The consideration for the acquisition, including costs directly related to the acquisition, consisted of $15,851,922 in cash including $3,297,007 paid to settle Copernic s stock appreciation right and severance obligations net of cash acquired. The Company also issued 2,380,000 common shares as part of the consideration paid. The fair value of the Company shares issued to owners of Copernic has been determined to be $2.958 per share. This value has been determined using the average closing price of the Company s common stock for two days before and after August 17, 2005, the date the significant terms and conditions of the transaction were agreed to and publicly announced.

This acquisition has been accounted for using the purchase method and the results of operations have been included in the statement of operations from the date of acquisition. The purchase price allocation was finalized upon receipt of a valuation report.

This acquisition has been accounted for using the purchase method. The fair value of the net assets acquired is summarized below:

	Copernic 2005 $
Cash	851,130
Accounts receivable	1,383,228
Prepaid	65,994
Income tax receivable	496,219
Future income taxes (current)	33,403
Future income taxes (long-term)	13,442
Income tax credit	54,746
Property, plant and equipment	314,284
Software	65,220

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Patents	69,527
Trade names	2,500,000
Customer relationships	2,000,000
Technology	3,400,000
Total assets acquired	11,247,193
Accounts payable and accrued liabilities	226,822
Future income taxes	2,686,000
Total liabilities assumed	2,912,822
Net identifiable assets acquired	8,334,371
Goodwill	15,408,721

Purchase price	23,743,092
Less:	
Common shares issued	7,040,040
Cash acquired	851,130
Consideration paid net of cash acquired	15,851,922

Goodwill is not deductible for income tax purposes.

7 Temporary Investments

Temporary investments consist of commercial paper bearing a weighted average interest rate 4.09% per annum (2004 2.29%) and maturing on various dates up to April 2006. The market value of the commercial paper as at December 31, 2005 and 2004 approximates its book value.

8 Accounts receivable

Accounts receivable comprise the following:

	2005	**2004**
	$	**$**
Trade accounts receivable	2,689,648	2,578,745
Allowance for doubtful accounts	(276,402)	(205,223)
	2,413,246	2,373,522
Other	210,694	129,013
	2,623,940	2,502,535

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9 Investments

Investments comprise the following:

	2005	**2004**
	$	**$**
LTRIM Technologies Inc. (4,891,686 Class A common shares and 359,281 Class A preference shares) (i)	720,000	720,000
Tri-Link Technologies Inc. (4,054,874 Preference shares) (ii)	-	-
TECE, Inc. (5,000,000 Common shares) (ii)	-	-
	720,000	720,000

The fair value of LTRIM Technologies Inc. has been established at $720,000 by independent appraisal and nil for Tri-Link Technologies Inc. and TECE, Inc. as of December 31, 2005.

i) In 2004, due to a permanent impairment in value, the Company wrote off $365,286 of its investment in LTRIM Technologies Inc.

ii)

In 2001 and 2002, due to a permanent impairment in value, the Company wrote off its investments in Tri-Link Technologies Inc. (Tri-Link) and TECE, Inc. In 2005, The Company received $41,878 from Tri-Link, this amount has been recorded in other income.

iii) On August 28, 2003, the Company sold its entire investment in uPath.com Inc. for CA$45,000 (US$32,499). As this investment had been written off in its entirety in 2002 due to a permanent impairment in value, the gain on disposal of the investment amounted to $32,499 in 2003.

10 Property, plant and equipment

			2005
	Cost $	Accumulated amortization $	Net $
Computer equipment	1,221,578	821,160	400,418
Furniture and fixtures	171,485	62,921	108,564
Leasehold improvements	177,642	87,866	89,776
	1,570,705	971,947	598,758

			2004
Computer equipment	1,022,586	754,127	268,459
Furniture and fixtures	87,104	53,825	33,279
Leasehold improvements	87,181	84,295	2,886
	1,196,871	892,247	304,624

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11 Goodwill and other intangible assets

Intangible assets

			2005
	Cost $	Accumulated amortization $	Net $
Trade names	2,912,869	276,148	2,636,721
Technology	3,705,217	211,961	3,493,256
Customer relationships	2,424,985	149,210	2,275,775
Software	181,760	56,920	124,840

Patents	71,439	183	71,256
	9,296,270	694,422	8,601,848

			2004
Trade names	412,869	185,745	227,124
Technology	305,217	132,289	172,928
Customer relationships	424,985	92,100	332,885
Software	63,098	42,257	20,841
	1,206,169	452,391	753,778

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows:

	Copernic	focusIN	Total
	$	$	$
Balance December 31, 2003 and 2004	-	846,310	846,310
Business acquisitions (note 6)	15,408,721	-	15,408,721
Balance December 31, 2005	15,408,721	846,310	16,255,031

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12 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	2005	2004
	$	$
Trade accounts payable	1,860,183	1,513,127
Other		
Accrued employee costs	415,942	285,666
Directors and officers payable	384,102	433,401
Payable to a company owned by a current director (a) (b)	30,716	12,764

2,690,943	2,244,958

(a) The amount payable to a company owned by a current director relates to consulting agreement between the Company and the company owned by a current director.

(b) Services provided by a director acting as an Executive Chairman for 2005 were $202,658 (2004 $182,687; 2003 $171,465). The transactions are in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

13 Capital stock

On September 7, 2004, the Company filed a Notice of Intention with the Ontario Securities Commission to make a Normal Course Issuer Bid (the Notice). In the Notice, the Company stated its intention to purchase on the open market at prevailing market prices, through the facilities of the NASDAQ stock market, up to a maximum of 600,000 of its common shares, being approximately 5% of the outstanding common shares, and common shares comprising the public float, as at December 31, 2004. At the expiration period, on September 7, 2005, the Company did not file a new notice.

During the year ended December 31, 2004, the Company did not purchase any of its outstanding common shares. During the year ended December 31, 2005, the Company redeemed 304,665 of its common shares at a weighted average purchase price of $3.46, for a total amount of $1,053,155. The $1,195,147 excess of stated capital value over the redemption amount has been credited to additional paid-in capital.

Stock options

The Company s stock option plan is administered by the Compensation Committee, which is a subcommittee of the Board of Directors. The Compensation Committee designates eligible participants to be included under the plan, and designates the number of options and the share price pursuant to the new options, subject to applicable securities laws and stock exchange regulations. The options, when granted, will have an exercise price of no less than the market price of shares at the date of grant and a life not exceeding 10 years. The options vest in equal increments over a period of three or four years, commencing one year from the grant date. The number of options granted in any fiscal year shall not exceed 15% of the issued and outstanding common shares at the date of the grant.

In 2003, 227,500 stock options at exercise prices between $1.99 and $3.58 expiring between seven and ten years were granted to officers and employees of the Company.

In 2004, 10,000 stock options were cancelled and granted with new conditions. The fair value of these new granted options were estimated as the date of grant using the Black-Scholes option pricing model.

On November 2, 2004, the Company granted to Officers and Members of the Board of the Company, 295,000 stock options at an exercise price of $7.08 expiring in five years.

On February 2, 2005, the Officers and Members of the Board of Directors of the Company to whom the above-mentioned stock options had been granted, waived and renounced any and all rights that each had or may have had on the options. Consequently, the options were cancelled as of that date. The stock-based compensation costs of $138,395 recorded as of December 31, 2004 pertaining to these options was reversed in the first quarter of 2005.

On February 16, 2005, 55,800 and 39,196 stock options at an exercise price of $6.28 expiring in five years were granted to officers and employees of the Company, respectively.

On November 8, 2005, the Company granted to Officers and Members of Board of the Company, 430,000 stock options at an exercise price of $2.28 expiring in five years.

Information with respect to stock option activity for, 2003, 2004 and 2005 is as follows:

Weighted average

		Number of options	exercise price $
Outstanding	December 31, 2002	377,180	1.76
Granted		227,500	2.71
Forfeited		(28,357)	1.74
Exercised		(129,678)	1.34
Outstanding	December 31, 2003	446,645	2.37
Granted		305,000	6.91
Forfeited		(16,000)	1.99
Expired		(18,750)	8.00
Exercised		(255,561)	1.57
Outstanding	December 31, 2004	461,334	5.60
Granted		524,996	3.00
Forfeited		(322,747)	6.94
Exercised		(2,500)	2.57
Outstanding	December 31, 2005	661,083	2.90

Details of stock options outstanding as at December 31, 2005 are as follows:

		Outstanding options		Exercisable options	
Range of exercise prices $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
1.50 1.99	30,834	6.51	1.90	30,834	1.90
2.38 3.58	555,500	5.05	2.50	69,834	3.17
6.28	74,749	6.13	6.28	-	-
	661,083	5.24	2.90	100,668	2.78

As at December 31, 2004 and 2003 there were 33,667 and 222,478 options exercisable at weighted average prices of $3.15 and $1.99, respectively.

The fair values of all options granted during 2005, 2004 and 2003 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004	2003
	$	$	$
Expected option life (years)	4.21	4.00	4.04
Volatility	79%	88%	82%
Risk-free interest rate	3.78%	3.70%	4.00%
Dividend yield	nil	nil	nil

The weighted average grant-date fair values for stock options granted during 2005, 2004 and 2003 were $1.90, $4.61 and $2.71 per option, respectively.

Stock-based compensation expense recognized in 2005, 2004 and 2003 in regards to the stock options was $136,933, $301,944 and $113,365, respectively.

Pro forma stock-based compensation disclosures

As described in note 3, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees and has applied this new method on a prospective basis. Following is a summary of what the net earnings (loss) and related per share figures would have been for 2005, 2004 and 2003 if the Company had applied this change retroactively to all prior years.

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	2005	2004	2003
	$	$	$
Net earnings (loss) for the year	(5,658,318)	1,104,407	(211,063)
Additional compensation costs	17,496	17,496	14,203
Pro forma net earnings (loss)	(5,675,814)	1,086,911	(225,266)
Pro forma net earnings (loss) per share:			
Basic	(0.47)	0.10	(0.04)
Diluted	(0.47)	0.10	(0.04)

14 Additional paid-in capital and deferred stock-based compensation

On March 16, 2004, the Company retained Merriman Curhan Ford & Co. (MCF) as a financial advisor and as an investment banking advisor. The Company then signed two separate agreements. In consideration for financial services, the Company had committed to pay MCF a monthly fee of $5,000 for a minimum obligation of $30,000 and 10,000 warrants per month with a minimum issuance of 60,000 warrants, each warrant gives the rights to purchase one common share of the Company. Warrants are issuable at an exercise price equal to the average closing bid for the last five trading days at the end of the month of issue, for the duration of the agreement upon the same terms and conditions. The warrants have a life of five years from the issuance date. For the investment banking services, the Company had committed to pay a cash financing completion fee equal to 6% of the total amount of capital received by the Company from the sale of its equity securities and warrants to purchase common shares of the Company in an amount equal to 6% of the number of common shares purchased by investors in capital raising transactions. The warrants are immediately exercisable at the higher of the price per share at which the investor can acquire common shares or the closing price of the Company's common shares at the date of the capital raising transaction. For mergers and acquisitions, the Company had committed to pay a success fee upon closing equal to the sum of 4% of up to $10,000,000 transaction value, 3% of $10,000,000 to $15,000,000 transaction value and 2% of greater than $15,000,000 transaction value, provided that MCF either introduces and/or performs specific services for the transaction. The minimum success fee for a transaction is $200,000. For a sale transaction, the Company had committed to pay a success fee with the same parameters of an acquisition except for the minimum fee which is $500,000.

For the period ended December 31, 2004, 40,000 warrants were issued to MCF at an average price of $12.31, the fair value of which was $260,301 estimated as of grant date using the Black-Sholes pricing model, and charged to expense with a corresponding credit to additional paid-in capital. The following weighted average assumptions were used:

Expected option life	3.5 years
Volatility	86%
Risk-free interest rate	3.99%
Dividend yield	nil

On July 16, 2004, the agreement for financial services, dated March 16, 2004 was amended. The Company committed to pay MCF a monthly fee of $5,000 for eight months from July 16, 2004. The agreement for investment banking services was amended on July 16, 2004, on September 8, 2004 and subsequently on October 12, 2005. The Company then is committed to pay a success fee upon closing equal to the sum of 3% of up to $20,000,000 transaction value, 1.5% of the excess of $20,000,000. If an acquisition transaction is less than 50% interest in the Company or the Target, a fee shall be payable in cash for 7% of the transaction value. If transaction is not

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consummated and the Company is entitled to receive break-up fee and other form of compensation, the Company then will pay to MCF 30% of Company's entire entitlement. In the event that the Board deems it necessary or appropriate for a fairness opinion to be rendered in connection with an acquisition transaction, MCF will receive a Fairness Opinion Fee of $200,000 for rendering its opinion, payable upon delivery of the Fairness Opinion and will be credited against the M&A Completion Fee due to MCF.

On June 30, 2004, the Company sold under a securities purchase agreement an aggregate of 1,515,980 common shares and 606,392 warrants to certain accredited investors for an aggregate price of $16,599,981. Net proceeds from the offering amounted to $15,541,162, net of issue cost of $1,058,819, $996,000 of which was paid to MCF. For this specific transaction, MCF waived their entitlement to a warrant component of the financing completion fee. Each warrant entitles the accredited investors to purchase one additional common share at an exercise price equal to $15.82 per share. The warrants will be exercisable beginning six months after the closing date, and will have a term of five years from the closing date.

The amounts allocated to the shares and warrants totalled $13,158,329 and $3,441,652, respectively. These amounts have been allocated based upon the relative fair values of the shares and warrants at the date they were issued. The estimated fair values of the warrants have been determined using the Black-Scholes pricing model and the following weighted average assumptions:

Expected option life	5 years
Volatility	86%
Risk-free interest rate	4.19%
Dividend yield	nil

In 2003, the Company granted 105,000 warrants at an average price of $2.50 to Maxim Group, LLC for financial advisory fees, the fair value of which was $84,566 estimated as of the grant date using the Black-Scholes pricing model, and charged to expense during the year with a corresponding credit to additional paid-in capital. These warrants vested immediately and expire after three years.

On December 12, 2002, the Company completed a private placement of 1,893,939 units, each unit consisting of one common share and one A warrant, for total gross proceeds amounting to $2,500,000, or $1.32 per unit. Each A warrant vests immediately, expires on November 30, 2004, and permits the holder to purchase one additional common share of the Company at an exercise price of $1.40 per share. The private placement agreement provides for a reload feature, whereby upon exercise of the entire A warrants, the holders are entitled to receive one new B warrant for each A warrant exercised. The B warrant vests immediately upon issuance, expires on November 30, 2006, and permits the holder to purchase an additional common share at an exercise price of $1.50 per share. As at December 31, 2004, the totality of the A and B warrants had been exercised.

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Information with respect to warrant activity for 2003, 2004 and 2005 is as follows:

	Number of warrants	Weighted average exercise price $
Outstanding December 31, 2002	2,037,409	1.42
Issued (i)	247,045	1.94
Forfeited	(1,425)	30.80
Exercised	(284,090)	1.45
Outstanding December 31, 2003	1,998,939	1.46
Issued - B warrants	1,893,939	1.50
Issued - Other	646,392	15.60
Exercised	(3,892,878)	1.48
Outstanding December 31, 2004 and 2005	646,392	15.60

(i) Does not include warrants to be issued in connection with the B warrant reload feature described above. For various price ranges, the weighted average characteristics of warrants outstanding and exercisable as at December 31, 2005 were as follows:

Range of exercise prices $	Number of warrants	Weighted average remaining contractual life (years)	Weighted average exercise price $
11.34 13.89	40,000	3.41	12.31
15.82	606,392	3.50	15.82
	646,392	3.49	15.60

15 Earnings (loss) per share

	2005 $	2004 $	2003 $
Weighted average number of shares Basic	12,168,117	10,758,604	6,207,360
Additions to reflect the impacts of:			
Exercise of stock options	-	121,195	93,854
Exercise of warrants (i)	-	330,107	1,740,022

Weighted average number of shares Diluted	12,168,117	11,209,906	8,041,236

(i) In 2003, includes B warrants issuable upon exercise of the A warrants described in note 14.

Options to purchase 309,895 common shares (2004 48,361; 2003 18,750), warrants to purchase 646,392 common shares (2004 327,712; 2003 16,000) have been excluded from the above calculations since they would have an anti-dilutive effect.

16 Revenues

	2005 $	2004 $	2003 $
Search advertising	4,935,617	9,659,024	5,787,980
Graphic advertising	4,456,399	4,965,198	3,150,883
Other	72,544	12,096	-
	9,464,560	14,636,318	8,938,863

17 Cost of revenues

	2005 $	2004 $	2003 $
Partner payouts	1,637,878	3,940,350	2,471,927
Media Purchase	2,264,700	2,384,262	1,213,387
ISP Charges	279,965	214,601	305,951
Other	21,487	-	-
	4,204,030	6,539,213	3,991,265

18 Consolidated statement of cash flows

In 2005, the consideration for the acquisition of Copernic (Digital Arrow in 2004) includes 2,380,000 (90,000 for Digital Arrow) of the Company s common shares at a determined fair value of $2.958 ($8.23 for Digital Arrow) per share. Therefore, $7,040,040 ($740,782 for Digital Arrow) representing the value of the consideration paid by the issuance of capital stock are excluded from business acquisitions and issuance of capital stock.

In 2003, financial fees paid in lieu of cash amounted to $17,000.

19 Net change in non-cash working capital items

	2005 $	2004 $	2003 $
Cash flows from (used for):			
Accounts receivable	1,266,077	(215,782)	(1,033,078)
Income taxes receivable	12,100	(104,129)	(15,259)
Prepaid expenses and other assets	(99,707)	(39,651)	(3,083)
Accounts payable and accrued liabilities	227,841	(35,737)	81,709
Deferred revenue	13,702	92,732	388
	1,420,013	(302,567)	(969,323)

20 Income taxes

a) The provision for (recovery of) income taxes is detailed as follows:

	2005 $	2004 $	2003 $
Current	(12,046)	153,825	-
Future (recovered)	(13,964)	400,855	(77,636)
	(26,010)	554,680	(77,636)

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b) A reconciliation of the combined Canadian Federal and provincial income tax rate with the Company s effective income tax rate is as follows:

	2005 $	2004 $	2003 $
Earnings (loss) from continuing operations before income taxes	(3,368,993)	925,433	11,354
Expected provision for (recovery of) income taxes at the statutory rate	(1,070,666)	287,069	3,749
Impact of foreign and provincial rates	(348)	10,965	-
Change in future income tax balance due to change in rate	(947,104)	-	-
Unrecognized benefit of current year tax losses			

and undeducted research and development expenses, and other temporary differences	2,067,696	500,116	465,295
Benefit of prior years tax losses not previously recognized	(93,681)	(17,178)	-
Recognition of future benefit of prior years temporary differences, including tax losses and undeducted research and development expenses	-	-	(577,482)
Permanent difference, including amortization and impairment of goodwill and write-down of investment	18,093	(226,292)	30,802
Provision for (recovery of) income taxes	(26,010)	554,680	(77,636)

c) The major components of the net future income tax asset classified by the source of temporary differences are as follows:

	2005	**2004**
	$	**$**
Assets		
Property, plant and equipment	2,839,093	2,558,945
Non-capital losses (expiring 2006-2015)	8,635,786	6,443,236
Unrealized impairment losses on investments	764,853	740,295
Research and development expenses	362,077	-
Financing expenses	257,648	341,871
Intangible assets	217,521	-
Goodwill	188,693	116,079
Other	39,971	-
	13,305,642	10,200,426
Liabilities		
Intangible assets	2,672,036	-
Net future income tax assets before valuation	10,633,606	10,200,426
Valuation allowance	(13,258,654)	(10,200,426)
	(2,625,048)	-
Presented as:		
Current asset	33,505	-

Long-term asset	13,483	-
Long-term liability	2,672,036	-
	(2,625,048)	-

As at December 31, 2005, the Company also has temporary differences in United Kingdom of $60,974 (2004-nil), in United States of America for $2,084,346 (2004-$1,088,042) and in Australia for $628,937 (2004- $678,675) with no expiration date. No future tax assets were recognized in 2005 and in 2004 for these temporary differences.

In addition, the Company has capital losses amounting to $14,724,484 in 2005 (2004-$14,107,504) without expiring date. No future tax assets were recognized in 2005 and in 2004 for these capital losses.

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d) As at December 31, 2005, the Company has non-capital loss carryforwards totalling approximately $25,210,000 for Federal and provincial income tax purposes which may be used to reduce taxable income in future years.

These losses may be claimed no later than fiscal years ending December 31:

	$
2006	4,438,000
2007	4,817,000
2008	3,509,000
2009	2,558,000
2010	3,417,000
2014	852,000
2015	5,619,000

21 Product development and technical support expenses

The following details the net product development and technical support expenses included in the consolidated statements of operations:

	2005 **$**	**2004** **$**	**2003** **$**
Product development and technical support expenses	1,276,346	809,347	477,634
Research and development expenses	31,600	168,715	249,906
	1,307,946	978,062	727,540
Less: research and development tax credits	21,601	86,521	128,157
	1,286,345	891,541	599,383

22 Segment information

The Company had a single reporting segment until the acquisition of Copernic on December 22, 2005, resulting in the creation of a second reporting segment from that date forward. Since the Company reports Copernic s operations from the date of the acquisition transaction (duration of 8 days), revenues of this segment are included in Other specified in the table below.

Geographic segment

	2005	2004	2003
	$	$	$
Revenues:			
Canada	207,048	225,773	238,655
United States	7,449,614	13,427,257	8,499,380
Europe	1,650,907	873,924	126,272
Other	156,991	109,364	74,556
	9,464,560	14,636,318	8,938,863

	2005	2004	2003
	$	$	$
Long-lived assets and goodwill:			
Canada	25,455,637	1,904,712	2,149,336
	25,455,637	1,904,712	2,149,336

23 Major Customers

The Company has two major customers, each account for more than 10% of the Company's sales. Sales for each of them represented approximately 14% (2004 - 2%; 2003 - 0%) and 11% (2004 - 11%; 2003 - 8%), respectively, of the Company's sales. The outstanding accounts receivable from these customers as at December 31, 2005 amount to approximately 8% (2004 - 4%) and 1% (2004 - 14%), respectively, of the total accounts receivable.

24 Contingencies and commitments

Informal SEC inquiry to formal investigation

On March 18, 2004, the United States Securities and Exchange Commission (SEC) notified the Company that the SEC had begun an informal inquiry relating to trading activity in the Company s securities. During March of 2004, trading in the Company s common stock had been intense and the market price of the common stock had risen sharply.

The SEC has since issued a formal order of investigation in this matter. As a part of its investigation, the Company believes the SEC may consider matters related to trading in the Company s securities and whether an individual and persons acting jointly or in concert with him may have had a significant influence on the Company in the past as a result of undisclosed shareholdings. (See *Special Investigation of Independent Committee* below.) The Company also believes that the Commission s staff may consider matters relating to the Company s financial reporting and internal controls. The scope, focus and subject matter of the SEC investigation may change from time to time and the Company may be unaware of matters under consideration by the SEC. The Company intends to continue cooperating with the SEC in its investigation

Purported Securities Class Action Lawsuit

On February 22, 2005, the first of several purported securities class action lawsuits was filed in the United States District Court, Southern District of New York against the Company, and certain of the Company s current officers and directors. The plaintiffs allege, among other things, violations of the Securities Exchange Act of 1934 for purportedly failing to disclose and misrepresenting certain allegedly material facts relative to the market for and trading in the Company s stock, and seek unspecified damages. The purported class actions appear to be based on unsubstantiated rumours and newspaper reports. All of these lawsuits have been consolidated. The Company denies the allegations of wrongdoing against it, believes that the purported claims are without merit, intends to defend itself vigorously, and has moved for dismissal of the consolidated lawsuit.

The Company s director and officer liability insurance is expected to cover most of the costs incurred in defending the purported securities class action in excess of the $250,000 retention paid. The insurer has paid most of the fees and expenses to date, except an amount of approximately $26,000 which has not been paid; the insurer is asserting that some fees and expenses of the class action defense counsel were outside the scope of coverage. The Company does not believe the insurer will successfully maintain this position with respect to the minimal unpaid amount of fees and expenses.

Special Investigation of Independent Committee

Following press reports in January 2005 and in response to recommendations made by the Company s former independent auditor, the Company s Board of Directors initiated an investigation under the supervision of a Special Independent Committee consisting of independent directors of the Audit Committee with independent legal counsel to investigate the allegations in the press reports. Those press reports claimed that Irving Kott and persons acting jointly or in concert with him may have had a controlling influence on the Company in the past as a result of undisclosed shareholdings. The Special Committee and its independent counsel have reviewed the relevant information available at the time of the investigation relating to the period from January 1, 1999 to December 31, 2004. While the Special Committee did note some evidence of contacts with and involvement by Mr. Kott and persons with whom he may have had an association, based on its review, the Special Committee has not found evidence establishing that Mr. Kott had a controlling influence on the Corporation during such period.

Commitments

The Company is committed under operating lease agreements. Future minimum payments under these leases as of December 31, 2005 are as follows:

		$
Years ending December 31,		
	2006	329,000
	2007	218,000
	2008	182,000
	2009	106,000
	2010	71,000
Thereafter		-

Other commitments

The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors, and officers and former directors, officers and employees of acquired companies, in certain circumstances. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its financial statements.

25 Financial instruments

Currency risk

The Company operates internationally and is exposed to market risks principally from changes in foreign currency rates. The Company does not hold any financial instruments that mitigate this risk.

Credit risk