

Management Report

BRANCHEZ-VOUS! inc. – fiscal year ended December 31, 2006

This discussion should be read in conjunction with the information contained in the company's financial statements and the related notes to the financial statements.

Report dated April 16, 2007

Overview

BRANCHEZ-VOUS! is a new media company, incorporated in 2000 but whose current operations, through mergers, began in 1995. It derives almost all of its revenues from advertising, sold on text, graphics or video format on web sites. Some of the sites it markets – including the BRANCHEZ-VOUS.com portal - belongs to the Corporation; the majority of the sites it markets belong to other publishers, who contract out to the Corporation all or part of their advertising sales. Its headquarters are in Montreal, Québec.

Mission, vision and strategies

Our mission

BRANCHEZ-VOUS!' mission is to **help the Quebec consumers and the advertisers who wish to reach them to better exploit all the Internet's potential.**

Our vision

BRANCHEZ-VOUS! aims to :

- Establish a **specialized information media pole** as an alternative to large groups
- Extend its reach throughout **Canada** and the **French-speaking world**

Our values

- Satisfaction of customers
- Frankness and transparency
- Efficiency and flexibility
- Credibility of the information we deliver
- Team spirit

Our strategies

The main strategies used by BRANCHEZ-VOUS! rely on :

- a **commercial and promotional synergy** of its activities as publisher, for its own sites, and as advertising representative, for its own sites and for those of the publishers which give it part or all of the commercialization for their site, allowing all the sites within its network to benefit from an increased common market share;
- the primacy of **efficiency, rapidity and flexibility of the customer service** it offers to advertisers and agencies, in order to maximise its revenues and to distinguish itself from competitors affiliated with larger corporations;
- the **focus** of its operations **under the BRANCHEZ-VOUS! brand**, in order to maximise the visibility, recognition and credibility of the Corporation;
- play the card of the **independent player valuing out** neutrality and on a certain sympathy from the audience and from the advertisers; and
- an **operational efficiency** and a **light corporate structure**, including the important usage of outsourcing, to allow it to keep a small cost structure.

Our goals for 2007

- strengthen our position as the **leading independent player** in the Internet advertising market in Québec

- maintain and, if possible, increase our share of the advertising marketing in Canada
- entrench the position of the BRANCHEZ-VOUS.com portal as a leading News / Biz / Tech portal in Québec
- have our video portals reach break-even point
- strengthen our team
- position the corporation as a vehicle for consolidation in the marketplace

Market trends

In Québec, the percentage of consumers who use the Internet regularly seems to have reached a plateau, as a 72% of Quebecers already use the Internet on a regular basis. However, the duration of Internet usage and the number of page viewed are still growing. The volume of electronic commerce is also increasing.

The Internet advertising market is growing rapidly and steadily and this growth should continue during the next few years - as the Internet share of corporations' advertising media expenditures grows.

Within this market, the fastest growth comes from keyword-based advertising – a segment in which the Corporation is not yet active. The display advertising segment (banners, big boxes, etc., including animated and video "Rich Media" advertising), which is the main sector of the Corporation's activities, is also growing, though. The video advertising sub-segment, while still marginal, is poised for fast growth.

The Internet advertising market is fragmented, but is consolidating around its major players, including Sympatico-MSN (Bell Canada and Microsoft) and Canoe (Quebecor Media). Even at a smaller scale, the Corporation seems to have benefited more than suffered from this consolidation thanks to its ad representation activities.

The market of Internet ad representation is increasingly competitive. Three other corporations are marketing in Québec services similar to those of the Corporation.

The content offering of generalist and specialized portals is enhanced regularly and the Corporation must devote its creative and acquisition resources to the content items which will allow it to quickly generate advertising revenues. With the BRANCHEZ-VOUS.com portal, the Corporation has a leadership position in the Technology information segment but competes mainly with Gesca-owned Technaute.com and, to a lesser extent, with technology sections of other portals including Canoe.qc.ca and LesAffaires.com.

Main performance indicators

Management considers that the main factors of the Corporation's performance are the following:

- Sales
- Gross profit margin
- Net income
- Working capital
- Shareholders' equity

Ability to deliver the desired results

The ability of the Corporation to deliver the desired results depend mainly on :

- The evolution (size, composition and concentration) of the Internet advertising market in Québec
- The number, traffic, popularity and positioning of the sites marketed by the Corporation
- The ability of the Corporation's sales force to meet its advertisers and agencies clients' expectations
- The degree of competition in the marketplace, as it affects the average advertising rates and royalty rates to be paid to represented publishers
- The Corporation's ability to meet its sites' users expectations in terms of content
- Keeping a sound financial structure and sufficient working capital to allow the Corporation to react quickly to business challenges and opportunities which may appear.

General performance

Fiscal year ended December 31, 2006 showed satisfying operating results, mostly due to a general growth of the advertising market compared to the previous fiscal year.

The increase in Gross profit (+16%) compared to 2005 was slower than the increase in sales (+31%). As operating expenses (+47%) increased faster than sales, due in part to non-recurring expenses related to a new employment contract with the vice-president, sales, net earnings decreased by 50%, to end up at \$ 274,000 in 2006.

Consequently, earnings per share decreased from 2 cents in 2005 to 1 cent in 2006.

Earnings contributed to the shareholders' equity, which increased from approximately \$ 1.1 million as at December 31, 2005 to almost \$ 1.5 million – or approximately 5 cents per share - as at December 31, 2006.

Selected annual information

All figures in \$.

For fiscal year ended:	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Revenues	3,444,000	2,629,000	1,720,000
Gross profit	2,042,000	1,759,000	1,134,000
Earnings before other elements	274,000	553,000	405,000
Net earnings	274,000	553,000	39,000
Basic and diluted earnings per share	0.01	0.02	0.00
Total assets	2,237,000	1,723,000	897,000
Long term financial liabilities	0	0	0
Declared dividends	0.00	0.00	0.00

The Corporation's revenues have been increasing regularly since 2002. Gross profit of the Corporation has increased every year and the Corporation's operations have remained profitable since 2002.

Since the cancellation of a projected corporate reorganization in December, 2004 and the sale of a long term placement invested in Passeport Media International inc. in April, 2005, no non recurring expense was registered in 2005 neither 2006 and has had any negative impact on the net earnings, as was the case in 2004.

Highlights

Reduction of paid-up capital of shares issued

On May 24, 2006, the Corporation's shareholders approved at an extraordinary shareholders' meeting, with a two-thirds majority, a reduction of paid-up capital of the share capital issued for an amount of \$ 1,597,729 and a reduction of contributed surplus of \$ 152,350, or a total amount of \$ 1,750,079. This reduction was effective as at March 31, 2006 and completely absorbed the accumulated deficit of the Corporation. This modification to the share capital had no impact on the corporation's assets or liabilities. Interim financial statements as at March 31, 2006 included such reduction in paid-up capital of the shares issued. As at December 31, 2006, the retained earnings of the Corporation reflect to the earnings accumulated between April 1st and December 31, 2006.

Expenses related to a new employment contract with the vice-president, sales

The Corporation signed a new employment contract with Sébastien Goulet, vice-president, sales. This contract, which includes non competition clauses, provided for two non-recurring bonuses paid to Sébastien Goulet in fiscal year 2006. These bonuses, as well as related legal expenses and expenses related to the organization of a special shareholders' meeting held on October 30, 2006, resulted in expenses and negative cash flows from operating activities of more than \$ 200,000 in 2006. Management consider these expenses, which significantly affected the net earnings of the Corporation in 2006, to be a non-recurring item.

Promotional contra exchange

The Corporation signed several promotional agreements with large media, for a cumulative amount of \$ 74,000 in 2006 and \$ 149,000 in 2005. The same amount has been registered in revenues and expenses, corresponding to non-cash transactions.

Operating results

Revenues increased by 31% in 2006 compared to 2005. The Corporation expects a growth of its sales in 2007, similar or slightly lower than the growth experienced in 2006. The Internet advertising market is in a steady growth and the Corporation estimates this growth should continue during the coming years. The Corporation estimates that it has mostly maintained its share of the Internet "display" advertising market in Québec in the past few years. However, increased competition from both large portals and ad networks may put pressure on its market share. Though, the Corporation estimates that it can maintain its position as a major player in the market.

Cost of sales, which corresponds to royalties paid to publishers of sites represented by the Corporation, have increased by 61% in 2006 compared to 2005, representing 41% of sales in 2006 compared to 33% of sales in 2005. This increase has been higher than the increase in sales for two reasons. Firstly, the composition of the sales between the various sites represented has continued to evolve, in 2006 compared to 2005. Secondly, larger represented sites have been offered more favourable revenue-sharing conditions, resulting in a higher average royalty rate. This increase corresponds to a long term trend : management expects that cost of sales will increase again slightly faster than sales in 2007.

Gross profit has increased by 16% in 2006, at 59% of sales in 2006 versus 67% of sales in 2005. The Corporation expects an increase in gross profit but a slight decrease of gross profit margin in 2007, due to the expected increase in the cost of sales.

Net earnings decreased by 50% in 2006, at 8% of sales in 2006 versus 21% of sales in 2005. Management expects that the Corporation's operations will remain profitable in 2007.

Liquidity

As at December 31, 2006, the Corporation held \$ 111,000 in cash and short-term investments, compared to \$ 507,000 in cash and short-term investments as at December 31, 2005. The decrease in liquidity of the Corporation comes from an increase in long-term investments, from \$ 500,000 as at December 31, 2005 to \$ 900,000 as at December 31, 2006.

The Corporation estimates that its liquidity is sufficient to finance its growth.

No current obligation should have a negative impact on the Corporation's liquidity. The Corporation does not plan, in the short term, any significant long term investments except for financial investments.

Contractual obligations

Figures in \$.

	TOTAL	2007	2008	2009
Long term obligation	0	0	0	0
Capital lease	0	0	0	0
Operating lease	0	0	0	0
Buying obligation	159,000	154,000	5,000	0
Other long term obligations	0	0	0	0
TOTAL contractual obligations	159,000	154,000	5,000	0

Financing sources

The Corporation has no established financing source other than self-financing and has no long-term debt.

Related parties transactions

The Corporation had no related party transaction in 2006.

In 2005, the Corporation, in the course of normal business operations, had entered into a transaction controlled by Mr. Bruno Gautier, a director of the Corporation until June 14, 2005. These transactions related to a lease for the offices of the Corporation and to buying advertising space and event sponsorships for the promotion of the Corporation's operations. The total amount of these transactions was \$ 40,207.

Quarterly information

Figures in \$.

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	1,042,000	698,000	1,092,000	612,000	859,000	601,000	739,000	430,000
Gross profit	606,000	363,000	669,000	404,000	565,000	396,000	485,000	313,000
Earnings (loss)	207,000	(97,000)	114,000	50,000	170,000	100,000	210,000	72,000
Basic and fully diluted earnings per share	0.01	0.00	0.00	0.00	0.01	0.00	0.01	0.00

Sales and earnings vary significantly from one quarter to another, because the vast majority of the sales of the Corporation come from advertising campaigns which last a few weeks and are not booked on a regular basis. However, sales are usually higher during the second and fourth quarters.

The net loss registered in the third quarter of 2006 came mainly from charges which were provisioned for planned issuance of a share bonus to an employee. The plan to issue such share bonus was later abandoned in Q4 2006.

Fourth quarter

In Q4 2006, ended on December 31, 2006:

- **Revenues** increased by 21% compared to revenues of Q4 2005. On a sequential basis, revenues increased by 49% compared to Q3 2006. These increases were due to an increase in advertising sales.
- **Gross profit** increased by 9% compared to Q4 2005. Gross profit increased significantly slower than sales because of an increase in the proportion of sales on represented sites versus sites owned by the corporation and because of an increase in the average royalty rate paid to the represented sites by the Corporation. On a tracking basis, gross profit by 67% compared to Q3, 2006.
- **Net earnings** increased by 22% compared to Q4 2005, mostly due to interest revenues registered in Q4 2006 on long-term financial investments. On a tracking basis, net earnings in Q4 2006 compares to

a net loss of \$ 97,000 in Q3 2006. That net loss was mostly due to a \$ 50,000 provision for the issuance of a share bonus which was planned at the end of Q3, 2006 but was abandoned in Q4 2006.

Internal controls

Based on management's knowledge of the Corporation's disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded from an evaluation they have performed that the Corporation disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that the Company files or submits under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified in those rules and forms. No change that materially affected or are reasonably likely to materially affect internal control over financial reporting were disclosed by others within the Corporation or identified by management during the year ended December 31, 2006

Risks and uncertainties

Variations related to the overall economic situation

All the revenues of the Corporation come from advertising. The amount of advertising expenditures is directly related to the overall economic situation and they tend to overemphasize changes in this situation. The overall economic situation could evolve in an unexpected way and have an impact on the Corporation's revenues.

Being marginalized by large groups

Content, promotional and commercial synergies within large competing media groups active in the Quebec Internet market, such as Sympatico-MSN, Quebecor Media, Gesca/La Presse and Transcontinental, could create a gap within the media and services offering of these groups and those of the Corporation, which would result in reducing the Corporation's ability to offer its customers alternative solutions to these large groups.

Dependence on main clients

In 2006, two clients represented 38 % of the revenues of the Corporation. A change in these clients' strategy or in their preferences in terms of media buying could impact the Corporation's revenues. However, the main clients advertising are media agencies, which represent several advertisers. The probability that they may suddenly stop to do business with the Corporation for all of their clients is limited.

Dependence on main represented sites

The majority of the Corporation's advertising revenues are registered on sites which do not belong to the Corporation but with which publishers' it has commercial representation agreements. Among these sites, sites belonging wholly or partly to a company represented between 25% and 30% of all revenues of the Corporation in 2006. The agreement between that company and the Corporation will end in the second half of 2006, and nothing allows to forecast if the agreement will be renewed or not, or if the agreement may be extended in a modified form. Arriving and departing represented sites in the BRANCHEZ-VOUS! network and the evolution of the business relationship of the Corporation with the publishers it represent could have an impact on the Corporation's revenues or profitability.

Dependence on key human resources

The Corporation's success depends on a few key individuals, including in management and sales. As the Corporation lives in a highly competitive environment, the arrival or leaving of one or several individuals could have a significant impact on the Corporation's revenues and/or management.

High volatility of the share price

Because of the very low volume of its transactions on the market, the Corporation's share price is subject to high volatility.

Number of outstanding shares

As at December 31, 2006, 29,335,117 common shares of the Corporation were issued and outstanding.

Forward looking statement

Some statements made in this annual report, particularly with respect to the Company's expectations, constitute forward-looking statements. Forward-looking statements are subject to known and unknown risks and uncertainties related to competition, financial markets, access to capital, and changes in the general and sectoral economic development. These risks may result in the actual future results of the Corporation being significantly different from the ones which are expected.

(signed)

Patrick Pierra

President and Chief Executive Officer

(signed)

Robert Larocque, CMA

Chief Financial Officer