

# BRANCHEZ-VOUS

## Management Report

BRANCHEZ-VOUS! inc. – fiscal year ended December 31, 2008

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

*Report dated April 24, 2009*

### Overview

BRANCHEZ-VOUS! is an Internet media Corporation, incorporated in 2000 but whose current operations, through mergers, began in 1995. It derives almost all of its revenues from advertising, sold in text, graphics or video format on web sites. Some of the sites it markets – including the BRANCHEZ-VOUS.com portal - belong 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. The Corporation market all these sites as an advertising network called BV! Media. Its headquarters is in Montreal, Québec.

### Highlights

- During the first five months of 2008, BRANCHEZ-VOUS! acquired several news-driven information French language web sites, which were later consolidated within the BRANCHEZ-VOUS.com portal.
- On October 31, 2008, BRANCHEZ-VOUS! acquired NetWorldMedia, one of its main competitors operating an online advertising network.
- BRANCHEZ-VOUS! relaunched its advertising network and sales operation under the BV! Media brand in December 2008.
- Also in December 2008, BRANCHEZ-VOUS! secured a line of credit of \$ 700,000, guaranteed by a movable hypothec on accounts receivable, with the Royal Bank of Canada.

### Mission, vision, strategies and goals

#### Our mission

BRANCHEZ-VOUS!' mission is to **help organizations efficiently reach Canadian consumers and business people through Internet advertising.**

#### Our vision

BRANCHEZ-VOUS! aims to :

- Offer the largest, most comprehensive and innovative **Internet advertising network** to reach Canadian consumers.
- Establish a specialized Internet-based **information media group** as an alternative to large media groups.

#### Our strategies

BRANCHEZ-VOUS!'s main strategic objectives are to :

- Focus on **Internet advertising** to strengthen our position as one of the very few independent "pure play" Internet players in Canada
- Extend our **advertising network** throughout Canada, including Canadian traffic on foreign sites
- Enhance our proprietary **behavioural targeting technology** , to help achieve a scalability consistent with sustained growth
- Refine our product mix to offer the **widest range of advertising solutions** – from search engine marketing to media creativity integrated into top branded sites, through pay-per-click ("PPC") text ads and standard display banner advertising - to the widest range of national and local advertisers
- Focus the **development of our publishing operations** on Canada specific, high-worth content niches, while leveraging the BRANCHEZ-VOUS! brand

## How we attained our goals in 2008:

Below are our goals for 2008, as they were stated in our 2007 Year end Management Report, and how we reached them in 2008:

- “strengthen our position as the **leading independent player** in the Internet advertising market in Quebec” : the acquisition of NetWorldMedia allowed BRANCHEZ-VOUS! to secure a dominant position as the largest ad network in Quebec
- “maintain and, if possible, increase our share of the advertising market in Canada” : while the final figures for the Canadian Internet advertising market in 2008 have not yet been published by the Interactive Advertising Bureau of Canada, we believe we maintained our market share.
- “diversify our portfolio of represented sites, so as to spread the risks related to losing any specific site”: the acquisition of NetWorldMedia, which represented over 300 sites, has greatly helped us spread these risks.
- “in our core Quebec market, develop advertising sales on English-language and France-based sites” : BRANCHEZ-VOUS! now represents Canada411.ca across Canada and developed advertising sales on several France-based sites.
- “entrench the position of the BRANCHEZ-VOUS.com portal as a leading News / Biz / Tech portal in Quebec” : the acquisition and integration of the [Matin.qc.ca](#), [Showbizz.net](#) and [Fanatique.ca](#) web sites reinforced BRANCHEZ-VOUS.com in its position
- “take stakes in or acquire vertical French-language web sites, complementing BRANCHEZ-VOUS.com”: the acquisition of [Fanatique.ca](#), [Showbizz.net](#) and [LeCinema.ca](#) perfectly complemented BRANCHEZ-VOUS.com
- “position the Corporation as a vehicle for consolidation in the marketplace” : various acquisitions clearly demonstrated how BRANCHEZ-VOUS! intends to act as a consolidator in the Canadian Internet market.

## Our goals for 2009

- Increase significantly the number of English language sites included in our advertising network
- Get representation mandates in Canada from large foreign publishers to help them monetize their Canadian inventory
- Reach over 10 million Canadians each month through our ad network
- Achieve recognition as a large Canadian ad network under the BV! Media brand
- Increase our share of the Canadian advertising market
- Position BRANCHEZ-VOUS.com as an original news source, and not as a portal to generic content
- Redesign the BRANCHEZ-VOUS.com home page so as to modernize its look and make it more appealing to users and advertisers

## Market trends

In Canada, the percentage of consumers who are regularly active online continues to grow slightly and has reached 72% as at December 2008 (source: The comScore 2008 Digital year in review, March 2009). During the month of December 2008, an average Canadian Internet user logged on 26 days, spent 45 hours online and viewed 4,000 pages.

The Internet advertising market is still growing albeit somewhat less quickly than in previous years. For 2008, the Interactive Advertising Bureau (IAB) of Canada predicted an increase of 21%. In the USA, the average projection from several research firms is an increase of approximately 6% in the Internet advertising market in 2009 compared to 2008. Management expects that, notwithstanding the economic recession, the Internet advertising market in Canada will grow slightly faster than in the US in 2009.

In the context of a recession, many advertisers have modified their ad spending following these trends:

- more emphasis on return on investment (ROI), which benefits cost-per-click and search-related advertising;
- concentration on higher profile sites and larger ad networks;
- higher percentage of advertisers using behavioural targeting in their Internet ad campaigns.

These trends should mostly benefit BRANCHEZ-VOUS!, as it now offers PPC and search advertising, has significantly enlarged and deepened its ad network, and now offers behavioural targeting through a proprietary technology platform.

While competition has increased in the past few years in the advertising representation market, the number of competitors now seems to be roughly stable.

## Competition

As an ad network, BRANCHEZ-VOUS! now has many direct competitors in Canada, the largest one being Platform-A, the recently -formed ad sales arm of AOL. Olive Media, a joint subsidiary of Torstar, and Gesca (Power), and 24/7 are also major competitors.

As a publisher, BRANCHEZ-VOUS! now competes directly with Cyberpresse and, to a lesser extent, with Radio-Canada.ca, Canoe, Sympatico MSN, RDS.ca and Yahoo! Canada. Broadly speaking, as an Internet advertising seller, BRANCHEZ-VOUS! also competes with these entities as well as with other large Canadian media groups.

## Main performance indicators

Management considers that the main indicators of the Corporation's performance are the following: sales, gross profit, net income, adjusted EBITDA and shareholders' equity

## Ability to deliver improving results

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

- The evolution (size, composition and concentration) of the Internet advertising market in Canada
- The reach, number of ad impressions and audience composition of the Corporation's advertising network
- The ability of the Corporation's sales force to meet advertisers and advertising agencies' expectations
- The degree of competition in the marketplace, which impacts the average advertising rates and royalty rates to be paid to represented publishers
- The efficiency and scalability of technology to target and deliver advertising campaigns
- 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 as they appear

## General performance

The 2008 financial year was highlighted by the acquisition, as at October 31, 2008, of NetWorldMedia, which was BRANCHEZ-VOUS!'s closest competitor in ad representation services and was becoming one of its main competitors as well in the ad network field.

Due to the contribution of NetWorldMedia after its acquisition, BRANCHEZ-VOUS! increased sales of 32% and gross profit by 34% in 2008. Excluding this acquisition, BRANCHEZ-VOUS! had a disappointing performance in 2008: sales remained essentially flat, while operating expenses increased significantly – mostly due to depreciation and amortization costs related to the acquisition of several web sites before market conditions worsened, resulting in a loss.

Since operating expenses increased by a larger amount than gross profit, the Corporation ended the year with a net loss of \$ 315,000 in 2008, to be compared with net earnings of \$ 350,000 in 2007.

Adjusted EBITDA decreased by 40%, from \$ 454,545 – or 10% of sales – in 2007 to \$274,523 – or 5% of sales – in 2008.

Loss per share was at \$ 0.01 in 2008, to be compared to earnings per share of approximately \$ 0.01 in 2007.

The acquisition of NetWorldMedia greatly increased the shareholders' equity, which grew from almost \$ 1.875 million – or approximately \$ 0.06 cents per share – as at December 31, 2007 to more than \$ 6.3 million – or almost \$ 0.11 cents per share - as at December 31, 2008.

## Selected annual information

All figures are in \$.

For fiscal year ended:	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
<b>Revenues</b>	5,729,992	4,330,626	3,444,364
<b>Gross profit</b>	3,107,941	2,324,506	2,041,857
<b>Net earnings (loss)</b>	(315,053)	349,547	273,991
<b>Basic and diluted earnings per share</b>	(0.01)	0.01	0.01
<b>EBITDA</b>	209,686	397,686	299,670
<b>% EBITDA on sales</b>	3.6%	9.1%	8.7%
<b>Adjusted EBITDA*</b>	274,523	454,545	323,072
<b>Total assets</b>	9,444,930	2,777,768	2,236,811
<b>Long term financial liabilities</b>	991,204	0	0
<b>Declared dividends</b>	0.00	0.00	0.00

\* : EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, impairment of intangible assets and impairment of long-term investments. Adjusted EBITDA is defined as EBITDA to which the

Corporation adds stock-based compensation, as this expense does not result in any use of operating cash flows by the Corporation. EBITDA and Adjusted EBITDA are provided as a supplementary earnings measure to assist readers in determining the ability of BRANCHEZ-VOUS! to generate cash from operations and to cover financial charges. They are also widely used for business valuation purposes. These measures do not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

## Reconciliation of Adjusted EBITDA

All figures are in \$.

For fiscal year ended:	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
<b>Net earnings (net loss)</b>	(315,053)	349,547	273,991
Interest	2,453	-	-
Current income taxes	(33,439)	-	-
Future income taxes	(242,052)	-	-
Depreciation and amortization	235,327	48,138	25,679
Impairment of long-lived assets	562,449	-	-
<b>EBITDA</b>	209,686	397,686	299,670
Stock-based compensation	64,837	56,859	23,402
<b>Adjusted EBITDA</b>	274,523	454,545	323,072

## Operating results

### Consolidated results

The Financial statements for the year and the three-month period ended December 31, 2008 are consolidated financial statements, including results from:

- The 51% stake in the **TonClip.com inc.** subsidiary, for the whole financial year; and
- The wholly-owned **4306112 Canada inc.** subsidiary for the period of November 1 to December 31, 2008, following the acquisition of 4306112 Canada inc. by BRANCHEZ-VOUS! as at October 31, 2008. Since 4306112 Canada inc. owned 100% **NetWorldMedia inc.** during the same period, the consolidated financial results of BRANCHEZ-VOUS! also include the NetWorldMedia financial results during the same period.

Including the TonClip.com inc. results do not significantly change the BRANCHEZ-VOUS! financial statements for the periods ended Dec. 31, 2008, nor the comparison with non consolidated financial statements for previous periods.

Including the 4306112 Canada inc. consolidated results had a significant impact on the BRANCHEZ-VOUS! financial statements for the financial year and the three-month period ended on Dec. 31, 2008 and the comparison with financial statements, which did not include the 4306112 Canada inc. consolidated results, for the corresponding periods of the preceding year.

### Revenues

Revenues increased by 32% in 2008 compared to 2007. This increase was essentially due to the contribution, from November 1 to December 31, 2008, of sales from the newly-acquired NetWorldMedia inc. subsidiary. Without such contribution, sales of BRANCHEZ-VOUS! would have remained almost flat compared to 2007. The sales on newly represented sites, in 2008, was lower than expected but sufficient to balance the reduction in sales due to the termination, as at August 31, 2007, of a representation agreement with Astral Media.

In 2009, BRANCHEZ-VOUS! aims to roughly double its sales compared to 2008, mostly due to the consolidation, for a full year, of the sales derived from the acquisition of NetWorldMedia. BRANCHEZ-VOUS! also expects to benefit from the projected increase in the Internet advertising market and from an increase in BRANCHEZ-VOUS!'s share of the English-language Canadian Internet advertising market, a new market for the Corporation.

### Cost of sales

Cost of sales, which corresponds to royalties paid to publishers of sites represented by BRANCHEZ-VOUS! (no cost of sales is registered for sales on wholly-owned web sites), increased by 31% in 2008 compared to 2007, thus almost matching the increase in sales. As a percentage of sales, cost of sales was at 46% in both 2007 and 2008.

In 2009, management expects that cost of sales will increase as a percentage of sales, mostly due to the fact that NetWorldMedia did not own any of the sites it marketed and, consequently, had a higher cost of sales ratio than BRANCHEZ-VOUS!. In 2009, the proportion of sales on wholly-owned sites should be lower than in 2008, resulting in higher cost of sales as a percentage of sales.

## Gross profit

Gross profit increased by 34% in 2008. As a percentage of sales, it remained stable at 54% of sales.

In 2009, BRANCHEZ-VOUS! expects a significant increase in gross profit, due to an expected increase in sales. However, management expects gross profit to be lower as a percentage of sales, due to the increase of cost of sales as a percentage of sales.

## Operating expenses

Operating expenses increased by 88% in 2008. As a percentage of sales, they increased from 46% of sales in 2007 to 65% of sales in 2008. This increase is mostly due to two factors:

- the web sites acquired in the first five months of 2008 incurred additional content production expenses; they also incurred amortization costs and suffered from a global impairment loss of \$ 491,000 as at December 31 2008, due to lower sales performance than expected and worsening market conditions;
- an increase in the number of employees in sales and sales support, mostly due to the acquisition of NetWorldMedia.

In 2009, BRANCHEZ-VOUS! expects a significant increase in operating expenses, mostly due to the acquisition of NetWorldMedia, to increased expenses in human resources and technology, as well as to costs related to a new office into which the Corporation relocated in March 2009. However, management expects that operating expenses, as a percentage of sales, will be significantly lower in 2009 than in 2008, partly due to much lower expected impairment loss and to economies of scales.

## Net income

Net loss of \$ 315,000 – or 5% of sales - in 2008, due to the increase in operating expenses, compares with net earnings of \$350,000 – or 8% of sales – in 2007. Management expects that the Corporation will return to profitability in 2009.

## EBITDA

EBITDA decreased by 47% in 2008, from 9% of sales in 2007 to 4% of sales in 2008, mostly due to the increase in operating expenses. Management expects an increase in EBITDA in 2009.

## Adjusted EBITDA

Adjusted EBITDA decreased by 40% in 2008, from 10% of sales in 2007 to 5% of sales in 2008, due to the increase in expenses. Management expects an increase in Adjusted EBITDA in 2009.

## Horizontal analysis

Change in main items of the statement of earnings and deficit, in thousand \$ (except earnings per share, in \$).

	<b>2008</b>	Variation / 2007	Variation / 2007
	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Sales</b>	<b>5,730</b>	+1,399	+32%
Cost of sales	<b>2,622</b>	+616	+31%
Gross profit	<b>3,108</b>	+783	+34%
Operating expenses	<b>3,731</b>	+1,747	+88%
<b>Net earnings (net loss)</b>	<b>(315)</b>	-665	-
Earnings (loss) per share	<b>(0.01)</b>	-0.02	-
EBITDA	<b>210</b>	-188	-47%
Adjusted EBITDA	<b>275</b>	-180	-40%

## Vertical analysis

Share of main items in the statement of earnings and deficit, as a proportion of revenues.

	2008	2007
<b>Sales</b>	100%	100%
Cost of sales	46%	46%
Gross profit	54%	54%
Operating expenses	65%	46%
<b>Net earnings (loss)</b>	-5%	8%
EBITDA	4%	9%
Adjusted EBITDA	5%	10%

## Liquidity

As at December 31, 2008, BRANCHEZ-VOUS! held \$ 81,410 in cash and \$ 300,000 in short-term investments, compared to \$ 700,000 in short-term investments as at December 31, 2007. A bank indebtedness of \$ 64,795 as at December 31, 2008 was due to checks in circulation, while a bank indebtedness of \$ 53,463 as at December 31, 2007 was due to checks in circulation.

During the 2008 financial year, an amount of \$ 600,000 from long-term investments was used in various transactions for acquiring various web sites.

The working capital was impacted by the purchase of NetWorldMedia.

Our accounts receivable jumped from \$1,259,863 in 2007 to \$3,268,524 in 2008. This \$2,008,661 variance is negatively affecting our working capital and is mainly due to the accounts receivable inherited from the NetWorldMedia acquisition and higher November and December sales numbers by the Corporation.

Accounts payable and accrued liabilities jumped from \$810,582 in 2007 to 1,651,079 in 2008. This \$840,497 variance is positively affecting our working capital and is mainly due to the accounts payable inherited from the NetWorldMedia acquisition and higher royalties to be paid, since higher November and December sales numbers translate into higher royalties owed to editors.

We will need to focus on our collection process to bring down our accounts receivable; this has proven difficult in the past and is increasingly challenging in these difficult economic times.

Management secured a line of credit of \$ 700,000 as at year end, backed by accounts receivable to finance its growth as needed.

## Contractual obligations

All figures are in \$.

	TOTAL	2009	2010	2011	2012
<b>Long term obligation</b>	<b>0</b>	0	0	0	0
<b>Capital lease</b>	<b>0</b>	0	0	0	0
<b>Operating lease</b>	<b>322,481</b>	170,191	152,290		
<b>Buying obligation</b>	<b>646,414</b>	581,454	57,142	5,735	2,083
<b>Other long term obligations</b>	<b>0</b>	0	0	0	0
<b>TOTAL contractual obligations</b>	<b>968,895</b>	751 645	209 432	5,735	2,083

Our buying obligations consist of royalties committed by the Corporation to secure representation agreements with editors.

## Financing sources

The Corporation has no long-term debt, except for shareholders' advances to the Corporation. These advances were from shareholders of 4306112 Canada inc. and are now assumed by BRANCHEZ-VOUS!. As at December 31, 2008, the shareholders' advances totalled \$ 986,486, of which \$ 730,553 was registered as a long-term debt and \$ 255,933 was registered as the current portion of the long-term debt.

BRANCHEZ-VOUS! has no established financing source other than self-financing and a line of credit of \$ 700,000, which is secured by accounts receivable.

## Related parties transactions

In 2008, the Corporation registered \$ 92,445 in related-party transactions for services provided by a legal firm of which a Director of the Corporation is also a partner. The Corporation had registered \$ 88,452 in related-party transactions in 2007.

## Significant events

### Acquisition of 4306112 Canada inc. and NetWorldMedia inc.

As at October 31, 2008, BRANCHEZ-VOUS! acquired 4306112 Canada inc., a holding corporation whose main asset was a 100% ownership of NetWorldMedia inc. NetWorldMedia was a Montreal-based corporation operating an Internet advertising network and was one of the main competitors of BRANCHEZ-VOUS!. With this acquisition, BRANCHEZ-VOUS! more than doubled in size, enlarged its sales force, widened its network, gained access to proprietary technology allowing behavioural targeting, and reinforced its management team. Going forward, BRANCHEZ-VOUS! is now a much larger player in Quebec – where our estimates place the Corporation in the Top 3 in Internet advertising sales (excluding Google) – and is very well positioned to increase its English Canada market share.

Consideration for this acquisition was the issuance of 30 million common shares to shareholders of 4306112 Canada inc.. Such consideration was initially disclosed as having a value of \$ 4,680,000, based on the 10 day closing average price before the announcement of the transaction of \$ 0.156 per share. It is now recorded in the financial statements at \$ 4,322,619 using a discounted price of \$ 0.144 per share.

As part of an adjustment mechanism to the purchase price following the transaction, previous shareholders of 4306112 Canada inc. and NetWorldMedia inc. agreed to pay BRANCHEZ-VOUS! a total of \$ 150,825. This amount is recorded as a receivable from shareholders on the Consolidated balance sheet of the Corporation as at December 31, 2008 and it will be deducted from the shareholders' advances.

### Acquisition of several web sites

From February to May 2008, BRANCHEZ-VOUS! acquired several Quebec-based French language independent web sites, including Showbizz.net (Entertainment News), Matin.qc.ca (General news), LeCinema.ca (Movies) and Fanatique.ca (Sports). These are all information sites, most of them being news driven. While they kept their distinct identity, they have been merged into the BRANCHEZ-VOUS.com portal, which is now positioned as a broad news portal.

Total price for these acquisitions, excluding transaction costs, were \$ 1,005,000, of which \$ 640,000 was paid in cash and \$ 365,000 was paid in common shares of BRANCHEZ-VOUS!. Since market conditions worsened during the year, which was reflected by a slide in the Corporation's share price, BRANCHEZ-VOUS! registered an impairment loss of \$ 490,557 on these web sites as at December 31, 2008.

## Other information

### Non-cash transactions

The Corporation signed several promotional agreements with large media, for a cumulative amount of \$ 130,000 in 2008 and \$ 80,000 in 2007. The same amount has been registered in revenues and expenses, corresponding to non-cash transactions.

## Quarterly information

Figures in thousand \$ except for earnings per share, in \$.

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Revenues</b>	2,492	1,007	1,281	950	1,033	1,053	1,370	875
Gross profit	1,213	617	751	527	561	578	699	487
<b>Net earnings (loss)</b>	(233)	(56)	(18)	(8)	28	29	235	58
Basic and fully diluted earnings per share	(0.00)	(0.00)	(0.00)	(0.00)	0.00	0.00	0.01	0.00
EBITDA	147	(11)	65	9	49	39	244	66
<b>Adjusted EBITDA</b>	165	1	83	26	67	55	256	77

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

## Reconciliation of adjusted EBITDA

Figures in thousand \$.

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Net earnings (loss)</b>	(233)	(56)	(18)	(8)	28	29	235	58
Interest	2	-	-	-	-	-	-	-
Current income taxes	(33)	-	-	-	-	-	-	-
Future income taxes	(242)	-	-	-	-	-	-	-
Depreciation and amortization	123	45	50	17	21	10	9	8
Impairment of long-lived assets (1)	530		33					
<b>EBITDA</b>	147	(11)	65	9	49	39	244	66
Stock-based compensation	18	12	18	17	17	16	12	12
<b>Adjusted EBITDA</b>	165	1	83	26	67	55	256	77

(1) Trademarks are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. The impairment test consists of a comparison of the fair value of the Trademark with its carrying amount. When the carrying amount of the Trademark exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The fair value is calculated based on evaluations of discounted cash flows.

## Fourth quarter

In Q4 2008, ended on December 31, 2008:

- **Revenues** increased by 141% compared to revenues of Q4 2007 and by 147% compared to Q3 2008, due to the acquisition of NetWorldMedia inc. as at October 31, 2008.
- **Gross profit** increased by 116% compared to Q4 2007 and by 97% compared to Q3 2008, due to the increase in sales.
- **Net loss** of \$ 233,000 in Q4 2008 compares to net earnings of \$ 28,000 in Q4 2007 and to a net loss of \$ 56,000 in Q3 2008. The loss in Q4 2008 is due to impairment charges for web sites acquired in 2008.
- **EBITDA** increased by 200% compared to Q4 2007. On a sequential basis, it compares to a negative EBITDA of \$ 11,000 in Q3 2008. This increase is due to the increase in gross profit.
- **Adjusted EBITDA** increased by 150% compared to Q4 2007. On a sequential basis, Adjusted EBITDA also increased significantly compared to Q3 2008.

## Accounting policies

### Consolidation perimeter

The consolidated financial statements include the financial statements of the Company and its subsidiaries, TonClip.com Inc., 4306112 Canada Inc. and NetWorldMedia Inc.

### Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the year. Actual results could differ from those estimates.

### Cash and cash equivalents

Cash consists of cash balances with banks. Cash equivalents are short-term, highly liquid investments that are easily convertible to known amounts of cash and which are subject to an insignificant risk of value change. Cash equivalents consist of term deposits with maturities of three months or less from the date of acquisition and bank indebtedness.

### Revenues

Revenues are recorded in the period in which the services are rendered and when there is reasonable expectation of collection. Payments received prior to rendering of services are recorded as deferred revenue.

The Company's different revenue streams are recognized as follows:

- Pay-per-click advertising revenue is recognized when Internet consumers click on the advertisement displayed on the Web site they are consulting. Clients often deposit funds to provision their pay-per-click campaigns. Management validates what is delivered on a monthly basis for each client and books the portion of the deposits that are not spent as deferred revenue.
- Banner advertising revenue is recognized when the banner advertisements are displayed on the Web sites. The display of banners (impressions) is predetermined in advance of each client campaign along with the invoicing schedule. Every month, management validates that the impressions are delivered according to schedule. If impressions are under delivered, management lowers the invoice amounts or defers its recognition of revenue.
- Professional fees for Internet advertising consulting are divided into two categories, set up fees and management fees. Set up fees are recorded in the month the services are rendered. Management fees are charged on the delivery of the advertising services rendered over the duration of the contract.
- Interest income is recognized as earned and is recorded in other revenues.

### Earnings per share

Basic earnings per share are determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of common shares outstanding during the year, plus the effects of dilutive securities like stock options. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive securities had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase common shares of the Company at the average market value during the year.

### Non-monetary transactions

In the normal course of operations, the Company advertises on its various sites in exchange for goods and services. Income is determined on the basis of the fair value of the services rendered.

### Fixed assets

Fixed assets are depreciated using the following methods and rates:

	<u>Methods</u>	<u>Rates</u>
Office equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Production equipment	Declining balance	20%
Leasehold improvements	Straight-line	5 years

### Intangible assets

Intangible assets that are subject to amortization are amortized using the following methods and rates:

	<u>Methods</u>	<u>Rates</u>
Client relationships	Straight-line	2 to 15 years
Non-compete clause	Straight-line	2 years
Software	Declining balance	30%
Web sites	Straight-line	2 to 4 years

Trademarks have been considered to have an indefinite useful life and therefore, are not amortized. Trademarks are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. The impairment test consists of a comparison of the fair value of the trademarks with its carrying amount. When the carrying amount of the trademarks exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The fair value is calculated based on evaluations of future discounted cash flows.

## Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and intangible assets acquired at the date of acquisition. Goodwill is not amortized but tested for impairment annually on December 31. The impairment test is carried out in two steps.

In the first step, the carrying amount of the reporting unit including goodwill is compared to its fair value, which is estimated to be the sum of the future discounted cash flows. When the carrying amount of the reporting unit exceeds the fair value of the reporting unit a second step is required to measure the fair value of the goodwill, determined in the same manner as a business combination, purchase price allocation using the reporting unit's fair value as the purchase consideration. If the carrying amount of goodwill exceeds the fair value, an impairment loss of the excess is recognized.

The Company is also required to evaluate goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Certain indicators of potential impairment that could impact the Company's unit include, but are not limited to the following: a) a significant long term adverse change in online media industry that is expected to cause a substantial decline in sales and/or gross margin and b) a significant technological change that results in a substantially different way to provide advertisement within the online media environment.

## Stock option plan

The Company has a stock option plan, which is described in Note 15. The Company uses the fair value method to account for stock-based compensation cost for stock options granted to its employees, directors and consultants. Under this method, the fair value for stock options is established at the time of grant using the Black & Scholes model. The compensation cost is recorded over the vesting period with a corresponding increase in contributed surplus. Any consideration paid on exercise of stock options is credited to capital stock.

## 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 the carrying amounts and tax values of the assets and liabilities using enacted 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 on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

## Impairment of long-lived assets

Fixed assets and intangible assets that are subject to amortization are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The fair value is calculated based on market prices, when available, or calculated based on valuation techniques such as evaluations of discounted cash flows.

## Foreign currency translation

Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in net earnings.

## Financial instruments

Section 3855, Financial Instruments - Recognition and Measurement, requires that financial assets and financial liabilities, including derivative financial instruments, be recognized in the balance sheet when the entity becomes a party to the contractual provisions of the financial instrument. When all financial instruments within the scope of Section 3855, including embedded derivatives that are not closely related to the host contract, are recognized initially, they should be measured at their fair value, except for specific related party transactions. The subsequent measurement of the financial instruments depends on their classification: financial assets and liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other than held for trading financial liabilities.

### *Financial assets and liabilities held for trading*

Financial assets and liabilities held for trading are measured at fair value at each balance sheet date. Gain or loss arising from a change in the fair value is recognized in net income for the period in which it arises.

### *Held-to-maturity investments*

Held-to-maturity investments are measured at amortized cost using the effective interest method. Interest revenues or expenses are included in net income.

### *Loans and receivables, and other than held for trading financial liabilities*

Loans and receivables, and other than held for trading financial liabilities are measured at amortized cost using the effective interest method. Interest revenues or expenses are included in net income.

### *Available-for-sale financial assets*

Available-for-sale financial assets are measured at fair value at each balance sheet date. Gain or loss arising from a change in the fair value is recognized in other comprehensive income for the period in which it arises. When the financial asset is derecognized, the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net income for the period.

### *Classification*

Cash and cash equivalents	Held for trading
Short-term investments	Held for trading <sup>(1)</sup>
Accounts receivable	Loans and receivables
Receivable from shareholders	Loans and receivables
Long-term investments	Held for trading and available-for-sale <sup>(2)</sup>
Bank indebtedness	Other than held for trading
Accounts payable and accrued liabilities	Other than held for trading
Advances from shareholders	Other than held for trading

(1) Financial assets designated as held for trading.

(2) As at December 31, 2008, long-term investments were designated as available-for-sale. As at December 31, 2007, long-term investments were designated as held for trading.

### *Comprehensive income*

Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes essentially gains and losses, net of income taxes, arising from a change in the fair value of available-for-sale financial assets.

### *Transaction costs*

For a financial asset or financial liability classified as held for trading, all transaction costs are recognized immediately in net income. For a financial asset or financial liability classified other than as held for trading, all transactions costs directly attributable to the acquisition or the issuance of a financial asset or financial liability are added to the fair value of the instrument and recorded in the net income using the effective interest method.

## **Changes in accounting policies**

On January 1, 2008, the Corporation adopted CICA accounting handbook sections 1535, 3862 and 3863.

### **Capital disclosures**

Section 1535, Capital Disclosures establishes standards for disclosures about capital and requirements for an entity to disclose qualitative information about its objectives, policies and processes for managing capital and to disclose quantitative data about what it regards as capital. This new standard had no material impact on the Corporation's financial statements for the year ended December 31, 2008.

### **Financial instruments**

Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" replacing Section 3861 "Financial Instruments - Disclosure and Presentation ».

Section 3862 describes the required disclosures related to: a) the significance of financial instruments on the entity's financial position and performance and b) the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 has the same requirements in terms of standards for presentation of financial instruments than Section 3061. These new standards had no material impact on the Corporation's financial statements for the year ended December 31, 2008.

## Future accounting policies

### Goodwill and intangible assets

The Accounting Standards Board of Canada ("AcSB") issued Section 3064 "Goodwill and Intangible Assets", which replaces "Goodwill and Other Intangible Assets", Section 3062, and "Research and Development Costs", Section 3450. The new standard strengthens standards for the recognition and measurement of intangible assets at initial recognition, including internally generated intangible assets. This new accounting standard is effective for the Company's financial statements beginning on January 1, 2009. The Company is currently assessing the impact of this new standard on its financial statements.

### International Financial Reporting Standards (IFRS)

The AcSB announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company is currently assessing the future impact of these new standards on its financial statements.

### Business Combinations

The AcSB issued Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3, "Business Combinations". This new accounting standard is effective for the Company's financial statements beginning on January 1, 2011. The Company is currently assessing the impact of this new standard on its financial statements.

### Consolidated Financial Statements

The AcSB issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This new accounting standard is effective for the Company's financial statements beginning on January 1, 2011. The Company is currently assessing the impact of this new standard on its financial statements.

## Financial Instruments

### Risk management policies

The Company conducts transactions in foreign currencies and is exposed to foreign exchange risks. The company is also exposed to interest rate risk due to the nature of its financial instruments. Risk management is the responsibility of management and the Company did not use derivative financial instruments for the purpose of speculation.

### Credit risk

The Company grants credit to its clients in the normal course of business. On a continued basis, the Company carries out credit assessments of its clients and maintains allowances for potential bad debts. The Company generally does not require collateral. Advertisers place advertisement through advertising agencies, thus an advertising agency may represent several clients. As at December 31, 2008, the Company does not have a significant exposure to any individual client (44% of accounts receivable were derived from two clients in 2007).

The following table sets out details of the age of receivables that are outstanding and the related allowance for doubtful accounts:

	<b>December 31, 2008</b>	December 31, 2007
Current	<b>\$ 964,843</b>	\$ 426,485
31-90 days	<b>1,822,777</b>	618,278
91-150 days	<b>368,726</b>	177,044
Over 150 days	<b>174,915</b>	50,275
Less: allowance for doubtful accounts	<b><u>(62,737)</u></b>	<u>(12,219)</u>
Total accounts receivable, net	<b>\$ <u>3,268,524</u></b>	\$ <u>1,259,863</u>

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

Cash and cash equivalents and short-term and long-term investments (except for an amount of \$5,509 as at December 31, 2008) are held at a Canadian chartered bank.

### Liquidity risk

Liquidity risks arise from an excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents.

As at December 31, 2008 the Company was holding cash and cash equivalents of \$81,409. In addition, the Company has the credit facilities described in Note 12.

### Interest rate risk

The Company is exposed to interest risk relating to shareholders advances in the event of fluctuation of the prime rate of the bank of Canada. As at December 31, 2008, the Company had \$986,486 of interest bearing shareholders' advances. A variation of 1% of the prime rate would not have a significant impact on the Company's results for the year ended December 31, 2008. These shareholders advances are described in Note 13.

The Company manages its portfolio investments based on its cash flow needs and with a view to optimizing its interest income.

### Foreign currency risk

Foreign exchange risks for royalties payable are not significant because these royalties are calculated in Canadian dollars. The foreign exchange risks are limited to accounts payable in Euros. Increase or decrease of the exchange rate will not have a significant impact on net income.

As at December 31, 2008, cash and cash equivalents include an amount of US\$30,428 (CA\$37,262) and accounts payable include an amount of EURO 36,287 (CA\$59,246).

As at December 31, 2007, cash and cash equivalents include an amount of US\$30,544 (CA\$30,181) and accounts payable include an amount of EURO 42,117 (CA\$60,766).

### Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms.

The Company has determined that the fair value of its current financial assets and liabilities corresponds to their respective carrying amounts as at the balance sheet dates because of their short-term maturity.

As at December 31 2008, the long-term investments are classified as financial instrument available-for-sale and are recorded at cost since the fair value of this financial asset is not available. The fair value of the advances from shareholders approximates their carrying amounts because they bear interest at rates similar to market rates.

As at December 31 2007, the long-term investments are classified as held for trading and are recorded at fair value.

### Subsequent events

On January 1, 2009 Branchez-vous! Inc. and its subsidiaries, 4306112 Canada Inc. and NetWorldMedia Inc. were amalgamated. The operations of the amalgamated companies will be continued under the name Branchez-vous! Inc. The amalgamation will be accounted for as a continuity-of-interests transaction maintaining the carrying amount of the assets and liabilities of the combined entities.

As at January 1<sup>st</sup>, 2009, BRANCHEZ-VOUS! sold a 32% stake in TonClip.com inc. for \$4,800, thus resulting in TonClip.com not being subject to significant influence from BRANCHEZ-VOUS! after that date.

As at March 6, 2009, BRANCHEZ-VOUS! relocated its office to new premises in Downtown Montreal, which allowed its whole team - included former NetWorldMedia employees – to be under one roof.

## **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 Corporation files or submits under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified in those rules and forms. There are limitations to the evaluation of internal controls, policies and procedures of any business that the Corporation acquired up to twelve months before the Corporation's financial year end. 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, 2008.

## **Risks and uncertainties**

### **Default risks of major customers**

Due to the recession, many Corporations, including some large ones, may end up in bankruptcy or cease operations. US-based auto manufacturers, including General Motors – which is a large customer of BRANCHEZ-VOUS! – are particularly at risk. Should they cease operations or seek bankruptcy protection, the Corporation's revenues and liquidity would be negatively impacted.

### **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 economic recession could result in a contraction of Internet advertising spending, which would have a negative impact on the Corporation's revenues.

### **Being marginalized by large groups**

Content, promotional and commercial synergies within large competing media groups active in the Canadian Internet market, such as Sympatico-MSN, Quebecor Media, AOL/Platform-A or Gesca/La Presse 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. This risk has existed for several years and have not materialized, and the acquisition of NetWorldMedia mitigates this risk.

### **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 to other publishers. The Corporation has signed commercial representation agreements with these other publishers. Arriving and departing represented sites in the BV! Media network and the evolution of the business relationship of the Corporation with the publishers it represents could have an impact on the Corporation's revenues or profitability. In 2008, through contractual agreements and the acquisition of NetWorldMedia, BRANCHEZ-VOUS! has both increased the number of sites it represents and their diversity, so as to be less dependent on one particular publisher. No third-party publisher represented more than 6% of all revenues of the Corporation in 2008. BRANCHEZ-VOUS! also acquired several web sites in 2008, so as to limit its overall dependence on third-party publishers.

### **Dependence on key human resources**

The Corporation's success depends on a few key individuals, including in management and sales. Since the Corporation operates in a highly competitive environment, the arrival or departure of one or several individuals could have a significant impact on the Corporation's revenues and/or management. However, the fact that four of the top six managers are also significant shareholders in the Corporation mitigates this risk.

### **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 very high volatility.

## **Number of outstanding shares**

As at December 31, 2008, 60,361,015 common shares of the Corporation were issued and outstanding.

## Forward looking statement

Some statements made in this annual report, particularly with respect to the Corporation'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.

## SEDAR

Additional information on the Corporation can be found on SEDAR ([www.sedar.com](http://www.sedar.com)), including the notice for the annual meeting of shareholders

(signed)

**Patrick Pierra**

Co-President and Chief Executive Officer

(signed)

**Ramzy Metwalli, CMA**

Chief Financial Officer