

*The TSX Venture Exchange has not in any way passed upon the merits of the transaction described herein and any representation to the contrary is an offence.*

**CARMA FINANCIAL SERVICES CORPORATION**

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

and

**MANAGEMENT INFORMATION CIRCULAR**

January 17, 2005

January 17, 2005

**Dear Shareholder,**

The Board of Directors invites you to attend a special meeting of shareholders of Carma Financial Services Corporation to be held at 5:00 p.m. (Toronto time) on February 24, 2005 at the offices of Goodman and Carr LLP, Suite 2300, 200 King Street West, Toronto, Ontario. At the meeting, you will be asked to approve a number of items put forward in the accompanying management information circular, which include certain corporate matters, the amendment of the share capital of the Corporation, the acquisition of Synergex Group Inc., and the change of the name of the Corporation.

In October 2004, the Company signed an agreement to purchase all of the outstanding shares of Synergex Group Inc. in a related party transaction. We are very excited about the prospects of the combined entity. After careful study, management and the Board of Directors concluded that the acquisition is in the best interests of all shareholders.

**The Board of Directors has determined that the acquisition is in the best interests of the company and its disinterested shareholders and therefore unanimously recommends that disinterested shareholders vote in favour of the proposals set forth in the circular. This determination is based upon, among other things, the recommendation of the independent committee of the Board of Directors, which was formed to review and negotiate the acquisition, and the valuation and fairness opinion prepared by Kraft Yabrov Valuations Inc.**

The accompanying circular provides a detailed description of the steps necessary to complete the acquisition. Please give this material your careful consideration and, if you require assistance, consult your financial advisor.

We hope you will be able to attend the meeting. If you are not able to attend, it is important that you be represented at the meeting. To be represented at the meeting you must either be a registered shareholder and attend the meeting in person or complete, date and sign the enclosed form of proxy and forward it to Equity Transfer Services Inc. in the envelope provided. Please review the section in Part 1—General Proxy Information and Annual Meeting Matters titled “Voting of Proxies” in the accompanying information circular regarding the deadline for submitting your proxy, and for further details regarding the meeting and voting by proxy.

Any questions and requests for assistance relating to the meeting may be directed by shareholders to Equity Transfer Services Inc. at (416) 361-0930.

Yours sincerely,



David O. A. Aiello  
President, CEO and COO of the Corporation

**CARMA FINANCIAL SERVICES CORPORATION**

**NOTICE OF ANNUAL AND SPECIAL MEETING**

**NOTICE IS HEREBY GIVEN** that an annual and special meeting (the “**Meeting**”) of shareholders (“**Shareholders**”) of Carma Financial Services Corporation (the “**Corporation**”) will be held at Suite 2300, 200 King Street West, Toronto, Ontario on February 24, 2005 at the hour of 5:00 p.m. (Toronto time) for the following purposes:

1. to receive the audited consolidated financial statements of the Corporation for the year ended May 31, 2004, together with the report of the auditors thereon;
2. to elect directors for the ensuing year;
3. to appoint auditors for the ensuing year, and to authorize the directors to fix the remuneration payable to the auditors;
4. to consider, and if deemed advisable, to pass, with or without variation, a resolution (the “**Acquisition Resolution**”) to approve the acquisition (the “**Acquisition**”) of all of the issued and outstanding shares of Synergex Group Inc. (“**Synergex**”), as more particularly described in the accompanying management information circular (the “**Circular**”);
5. to consider, and if deemed advisable, to pass, with or without variation, a special resolution (the “**Articles Amendment Resolution**”) to amend the Corporation’s articles (the “**Articles Amendment**”) as set out in the articles of amendment (the “**Articles of Amendment**”) to be filed in connection with the Articles Amendment to (i) restate the rights, privileges, conditions and restrictions attaching to the common shares of the Corporation (the “**Common Shares**”) as set out in Schedule 1 to the Articles of Amendment (a copy of such Schedule being attached as Schedule B-2 to the Circular); (ii) delete the Series I Preference shares of the Corporation in their entirety; (iii) create a class of preferred shares (the “**Preferred Shares**”), issuable in series, the rights, privileges, conditions and restrictions of such Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment; (iv) create a series of Preferred Shares (the “**Series A Preferred Shares**”), the rights, privileges, conditions and restrictions of such Series A Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment, which shares are to be issued as part of the consideration under the Acquisition; and (v) change the name of the Corporation to “**Synergex Corporation**”;
6. to consider, and if deemed advisable, to pass, with or without variation, a resolution (the “**By-Law Resolution**”) approving the repeal of the current general by-law of the Corporation and confirming a new by-law of the Corporation (“**By-Law No. 3**”) relating generally to the transaction of the business and affairs of the Corporation, approved by the board of directors of the Corporation on December 8, 2004, as more particularly described in the Circular; and
7. to transact such further or other business as may properly come before the Meeting and any adjournment thereof.

The details of the Acquisition, the Articles Amendment and By-law No. 3 are described in the accompanying Circular (which details the matters to be considered at the Meeting). Implementation of the Acquisition is conditional upon, among other things, satisfaction or waiver of all conditions precedent set forth in the share exchange agreement among the Corporation, David Aiello and Matthew Reiter (the “**Share Exchange Agreement**”) dated October 22, 2004, as amended

**and restated as of December 15, 2004, including receipt of all required regulatory approvals, and the approval of the Articles Amendment Resolution. A copy of the Share Exchange Agreement is attached as Schedule "D" to the Circular. The full texts of the Acquisition Resolution, the Articles Amendment Resolution and the By-Law Resolution are attached as Schedules "A", "B" and "C" to the Circular, respectively. The provisions attaching to the Common Shares, Preferred Shares and Series A Preferred Shares are attached as Schedule "B-2" to the Circular. A copy of By-Law No. 3 is attached as Schedule "C-2" to the Circular.**

Since the terms for the Acquisition include the condition that a portion of the consideration will be comprised of Series A Preferred Shares, the Acquisition cannot proceed unless both the Acquisition Resolution and the Articles Amendment Resolution are approved.

The board of directors of the Corporation has fixed the close of business on January 24, 2005 as the record date for the purpose of determining Shareholders entitled to receive notice of the Meeting. The failure of any Shareholders to receive notice of the Meeting does not deprive such Shareholders of the right to vote at the Meeting. Only Shareholders of record at the close of business on January 24, 2005 are entitled to vote at the Meeting unless Common Shares are transferred after January 24, 2005 and the transferee establishes that he or she owns such shares and demands not later than 10 days before the Meeting that his or her name be included in the list of Shareholders entitled to vote at the Meeting.

Accompanying this Notice are a summary and the complete text of the Circular (which includes the full text of the resolutions set out in items 4, 5 and 6 above), and a form of proxy. If you are a registered Shareholder, whether or not you are able to attend the Meeting in person, the form of proxy in respect of the Meeting should be completed, signed, dated and returned at your earliest convenience in the envelope provided. To be effective, the proxy must be returned to the Corporation's transfer agent, Equity Transfer Services Inc., by mail or delivery to 120 Adelaide Street West, Suite 240, Richmond – Adelaide Centre, Toronto, Ontario, Canada M5H 4C3 or by facsimile to (416) 361-0470, not later than 4:30 p.m. (Toronto time) on the second business day preceding the Meeting, or, if the Meeting is adjourned, not later than 4:30 p.m. (Toronto time) on the second business day preceding such adjourned meeting. If you are able to attend the Meeting, sending your proxy will not prevent you from voting in person.

If you are a non-registered Shareholder and have received these materials through your broker or another intermediary, please complete and return the form of proxy in accordance with instructions provided to you by your broker or such other intermediary.

Dated the 17<sup>th</sup> day of January , 2005.

**CARMA FINANCIAL SERVICES CORPORATION**



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David Aiello  
President, Chief Executive Officer and Chief Operating Officer

Shareholders unable to attend the Meeting are requested to date, sign and return their form of proxy in the enclosed envelope.

## TABLE OF CONTENTS

	<b>Page</b>
<b>GLOSSARY OF TERMS .....</b>	<b>1</b>
<b>SUMMARY.....</b>	<b>6</b>
<b>CARMA FINANCIAL SERVICES CORPORATION MANAGEMENT INFORMATION</b>	
<b>CIRCULAR .....</b>	<b>9</b>
<b>PART 1 – GENERAL PROXY INFORMATION AND ANNUAL MEETING MATTERS.....</b>	<b>9</b>
Introduction .....	9
Forward Looking Statements .....	9
General Voting and Proxy Information.....	9
Voting Securities and Principal Holders Thereof.....	11
Appointment of Auditors.....	11
Election of Directors .....	12
Other Matters.....	13
Executive Compensation.....	13
Indebtedness of Directors and Executive Officers .....	15
Indebtedness of Directors and Executive Officers under Securities Purchase and other Programs.....	15
Termination of Employment, Change in Responsibilities and Employment Contracts .....	16
Directors' and Officers' Liability Insurance and Indemnification .....	16
Stock Option Plan.....	16
Securities Authorized for Issuance under the Corporation's Equity Compensation Plans.....	17
Interest of Interested Persons in Material Transactions.....	17
Audit Committee .....	18
Statement of Corporate Governance Practices of the Corporation.....	18
<b>PART 2 – SPECIAL MATTERS .....</b>	<b>19</b>
The Acquisition .....	19
Related Party Transaction.....	19
Reasons for the Acquisition.....	20
The Independent Committee .....	20
Valuation and Fairness Opinion .....	20
Deliberations and Recommendations of the Independent Committee .....	21
Recommendations of the Board .....	22
The Share Exchange Agreement .....	22
Articles Amendments .....	27
By-Law No. 3 .....	29
Approvals Required.....	29
Accounting Matters .....	30
Additional information .....	30
<b>PART 3 – INFORMATION REGARDING THE CORPORATION, SYNERGEX AND THE RESULTING ISSUER.....</b>	<b>31</b>
<b>INFORMATION REGARDING THE CORPORATION.....</b>	<b>31</b>
Name and Incorporation.....	31
Intercorporate Relationships.....	31
General Development of the Business, Significant Acquisitions and Significant Dispositions.....	31
Credit Reporting and Monitoring Workgroup.....	32
Receivables Management and Debt Recovery Workgroup.....	32

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
Business Strategy .....	34
Competition.....	35
Trends .....	36
Selected Consolidated Financial Information.....	37
Management Discussion and Analysis of Financial Condition and Operating Results .....	38
Dividend Policy.....	39
Authorized and Issued Share Capital .....	39
Consolidated Capitalization.....	39
Options and Other Rights to Purchase Common Shares .....	39
Prior Sales.....	40
Trading History .....	40
Directors and Officers .....	40
Other Reporting Issuers.....	40
Corporate Cease Trade Orders or Bankruptcies .....	41
Penalties or Sanctions.....	41
Individual Bankruptcies.....	41
Conflicts of Interest .....	41
Risk Factors.....	42
Legal Proceedings .....	44
Interest of Management and Others in Material Transactions.....	44
Auditors .....	44
Registrar and Transfer Agent .....	44
Material Contracts .....	44
<b>INFORMATION REGARDING SYNERGEX .....</b>	<b>45</b>
Name and Incorporation.....	45
Intercorporate Relationships.....	45
Description and General Development of the Business .....	46
The Synergex Commercial Gateway.....	47
Synergex Technology Management.....	47
Trends .....	48
Selected Consolidated Financial Information.....	48
Management Discussion and Analysis of Financial Condition and Operating Results .....	49
Acquisitions and Dispositions .....	49
Management of Synergex.....	49
Human Resources.....	50
Customers.....	50
Future Developments .....	50
Proprietary Protection.....	51
Marketing plans and strategies .....	53
Prior Sales.....	53
Indebtedness of Directors, Officers, Promoters and Other Management.....	53
Executive Compensation .....	54
Termination of Employment, Change in Responsibilities and Employment Contracts.....	54
Proposed Compensation .....	55
Authorized and Issued Share Capital .....	55
Corporate Cease Trade Orders or Bankruptcies.....	55

**TABLE OF CONTENTS**  
 (continued)

	Page
Penalties or Sanctions.....	55
Individual Bankruptcies.....	55
Conflicts of Interest.....	55
Risk Factors.....	56
Legal Proceedings .....	58
Material Contracts .....	58
<b>INFORMATION REGARDING THE RESULTING ISSUER .....</b>	<b>58</b>
Summary of Transaction, Resulting Issuer and Business.....	58
Stated Business Objectives.....	59
Available Funds.....	59
Pro Forma Financial Statements.....	59
Conflicts of Interest .....	60
Intercorporate Relationships.....	60
Fully Diluted Share Capital and Consolidated Share and Loan Capital.....	60
Consolidated Share and Loan Capital .....	61
Directors, Officers, Promoters and Persons Holding More Than 10% of the Issued Equity Shares .....	61
Public and Insider Ownership .....	61
Options and Other Rights to Purchase Common Shares .....	61
Escrowed Securities .....	62
Sponsorship .....	62
Investor Relations Arrangements .....	62
Relationship Between the Corporation/Synergex and Professional Persons.....	62
Auditors, Registrar and Transfer Agent .....	62
<b>APPROVAL OF THE BOARD .....</b>	<b>62</b>
<b>CERTIFICATE OF THE CORPORATION</b>	
<b>CERTIFICATE OF SYNERGEX</b>	
<b>CONSENT OF KRAFT, YABROV VALUATIONS INC.</b>	
<b>CONSENT LETTER FROM BDO DUNWOODY LLP</b>	
<b>CONSENT LETTER FROM DAURIO &amp; FRANKLIN LLP</b>	
<b>CONSENT LETTER FROM MINTZ &amp; PARTNERS LLP</b>	

**SCHEDULES**

**SCHEDULE "A" ACQUISITION RESOLUTION**

**SCHEDULE "B" ARTICLES AMENDMENT RESOLUTION**

**SCHEDULE "B-2" PROVISIONS ATTACHING TO THE COMMON SHARES,  
PREFERRED SHARES AND SERIES A PREFERRED SHARES OF THE  
CORPORATION**

**SCHEDULE "C" BY-LAW RESOLUTION**

**SCHEDULE "C-2" BY-LAW NO. 3**

**SCHEDULE "D" SHARE EXCHANGE AGREEMENT**

**SCHEDULE "E" AUDIT COMMITTEE CHARTER**

**SCHEDULE "F" DISCLOSURE ON CORPORATE GOVERNANCE**

**SCHEDULE "G" FINANCIAL STATEMENTS OF THE CORPORATION**

**TABLE OF CONTENTS**  
(continued)

**Page**

<b>SCHEDULE "H" FINANCIAL STATEMENTS OF SYNERGEX</b>	
<b>SCHEDULE "I" PRO FORMA FINANCIAL STATEMENTS</b>	
<b>SCHEDULE "J" MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE</b>	
<b>CORPORATION</b>	
<b>SCHEDULE "K" MANAGEMENT'S DISCUSSION AND ANALYSIS FOR SYNERGEX</b>	
<b>SCHEDULE "L" SUMMARY OF A FAIRNESS OPINION AND VALUATION REPORT</b>	
<b>BY KRAFT YABROV VALUTIONS INC. RELATING TO THE PROPOSED</b>	
<b>TRANSACTION BY WHICH CARMA FINANCIAL SERVICES</b>	
<b>CORPORATION WOULD PURCHASE ALL THE OUTSTANDING SHARES OF</b>	
<b>SYNERGEX GROUP INC. AT OCTOBER 31, 2004</b>	

## GLOSSARY OF TERMS

The following terms used in this information circular are intended to have the meanings set forth below:

**“Acquisition”** means the acquisition of all the issued and outstanding shares of Synergex, and the acquisition of the 15% interest in Synergex Logistics not currently owned by Synergex.

**“Acquisition Resolution”** means the ordinary resolution of the majority of the Minority Shareholders approving the Acquisition, the proposed form of which is annexed to this Circular as Schedule “A”.

**“Applicable Law”** means, in respect of any person, property, transaction or event, any domestic or foreign statute, law (including the common law), ordinance, rule, regulation, treaty, restriction, regulatory policy, standard, code or guideline, by-law (zoning or otherwise) or Order that applies in whole or in part to such person, property, transaction or event.

**“Articles”** means, with respect to any body corporate, the original or restated articles of incorporation, articles of amendment, articles of amalgamation, articles or arrangement, articles or reorganization, articles or revival, letters patent, memorandum of agreement, special act or statute and any other instrument or constating document by or pursuant to which the body corporate is incorporated or comes into existence.

**“Articles Amendment”** means the amendments to the authorized capital of the Corporation and change of the Corporation’s name reflected in the Articles of Amendment.

**“Articles Amendment Resolution”** means the resolution of the Shareholders, the proposed form of which is annexed to the Circular as Schedule “B”.

**“Articles of Amendment”** means the proposed articles of amendment to be filed by the Corporation for the purpose of (i) restating the rights, privileges, conditions and restrictions attaching to the Common Shares, (ii) creating the Preferred Shares and Series A Preferred Shares, and (iii) changing the name of the Corporation to “Synergex Corporation”.

**“Board”** means the board of directors of the Corporation.

**“Business Day”** means a day which is not a Saturday, Sunday or a statutory holiday in the Province of Ontario.

**“By-Law No. 3”** means by-law no. 3 relating generally to the transaction of the business of the Corporation adopted by the Board on December 8, 2004, a copy of which is annexed to this Circular as Schedule “C-2”.

**“By-Law Resolution”** means the resolution confirming By-Law No. 3, the proposed form of which is annexed to this Circular as Schedule “C”.

**“Circular”** means this management information circular and the notice of the Meeting attached hereto.

**“Closing”** means the completion of the Acquisition and the completion of all other transactions contemplated in the Share Exchange Agreement that are to occur contemporaneously therewith.

**“Closing Balance Sheet”** means the balance sheet of Synergex and its Subsidiaries, on a consolidated basis, as at the Closing Date, prepared in accordance with generally accepted accounting principles, consistently applied, as finally determined in accordance with the Share Exchange Agreement.

**“Closing Date”** means the date that is the tenth Business Day following receipt of Shareholder approval for the Acquisition, or such other date as the Corporation and the Vendor agree.

**“Closing Time”** means 12:00 p.m. (Toronto time) on the Closing Date or such other time as the Corporation and the Vendor agree that the Closing shall take place.

**“Closing Working Capital”** means the amount equal to the total of Synergex’ consolidated current assets less the total of its consolidated current liabilities as shown on the Closing Balance Sheet and, for these purposes, “current assets” and “current liabilities” consist of assets and liabilities so classified on the Closing Balance Sheet.

**“Common Shares”** means the issued and outstanding common shares in the capital of the Corporation as constituted on the date of this Circular.

**“Consent”** means any consent, approval, permit, waiver, ruling, exemption, or acknowledgement from any Person (other than Synergex or its Subsidiaries or the Corporation or its Subsidiaries) under the terms of any Contract, lease, or equipment lease, issued to or for the benefit of Synergex or its Subsidiaries or the Corporation or any of its Subsidiaries, as the case may be, which is provided for or required pursuant to the terms of such Contract, lease or equipment lease in connection with the Acquisition and the completion of the other transactions contemplated in the Share Exchange Agreement or which is otherwise necessary to permit the parties to the Share Exchange Agreement to perform their obligations or is otherwise required to permit the consummation of the transactions as contemplated in the Share Exchange Agreement.

**“Contracts”** means all contracts, agreements, instruments or other legally binding commitments or arrangements, written or oral.

**“Corporation”** means Carma Financial Services Corporation.

**“CRA”** means the Canada Revenue Agency.

**“Encumbrance”** means any mortgage, charge, easement, encroachment, lien, adverse claim, restrictive covenant, assignment by way of security, security interest of any nature, servitude, pledge, hypothecation, security agreement, title retention agreement, right of occupation, option or privilege, or any Contract to create any of the foregoing.

**“Governmental Authority”** means any domestic or foreign government, whether federal, provincial, state, territorial or municipal, and any governmental agency, ministry, department, tribunal, commission, bureau, board or other instrumentality exercising or purporting to exercise legislative, judicial, regulatory or administrative functions of, or pertaining to, government.

**“Independent Committee”** means the independent committee of the Board established in connection with the Acquisition.

**“Interested Person”** means any present or former officer, director, shareholder or employee of Synergex or of any of its Subsidiaries, the Corporation or any of its Subsidiaries or any Person with which Synergex

or any of its Subsidiaries, the Corporation or any of its Subsidiaries or any of the foregoing, does not deal at arm's length within the meaning of the Tax Act.

**"Interim Period"** means the period from and including the time of execution of the Share Exchange Agreement to and including the Closing Time.

**"Intermediary"** means an intermediary that a non-registered Shareholder may deal with, including banks, trust companies, securities dealers or brokers and trustees or administrators of self-directed RRSPs, RRIFs, RESPs and similar plans.

**"Legal Proceeding"** means any litigation, action, suit, investigation, hearing, claim, complaint, grievance, arbitration proceeding or other proceeding, and includes any appeal or review and any application of same.

**"License"** means any license, permit approval, authorization, certificate, directive, order, variance, registration, right, privilege, concession or franchise issued, granted, conferred or otherwise created by any Governmental Authority.

**"Material Adverse Effect"** means any state of facts, which, either individually or in the aggregate, are, or would reasonably be expected to be, material and adverse to the business, operations, results of operations, prospects, assets, liabilities or financial condition of the Corporation or Synergex, as the case may be, on a consolidated basis, other than any change, effect, event or occurrence relating to securities markets in general.

**"Material Contracts"** means the contracts referred to in section 3.1.25 or section 3.2.23 of the Share Exchange Agreement, as applicable.

**"Material Licenses"** means all Licences that have been identified by a party to the Share Exchange Agreement to the other party as being material to the business of Synergex or any of its Subsidiaries or the Corporation or any of its Subsidiaries, as the case may be.

**"Meeting"** means the annual and special meeting of the Shareholders to be held on February 24, 2005 and all adjournments thereof.

**"Minority Shareholders"** means Shareholders other than Interested Persons.

**"Non-Registered Holder"** means a holder of Common Shares who is a beneficial owner, and not a registered owner of such shares.

**"OBCA"** means the *Business Corporations Act* (Ontario).

**"Order"** means any order, directive, judgment, decree, award or writ of any tribunal.

**"Outside Closing Date"** means May 31, 2005.

**"Person"** means and includes an individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, a trustee, executor, administrator or other legal representative and the crown or any agency or instrumentality thereof.

**"Preferred Shares"** means preferred shares of the Corporation issuable in series, the rights, privileges, conditions of each series to be set by the Corporation's directors as needed from time to time.

**“Purchase Price”** means the purchase price for the Purchased Shares, being a total of approximately \$14.4 million.

**“Purchased Shares”** means (i) all of the outstanding shares of Synergex and (ii) the 15,000 common shares of Synergex Logistics not currently owned by Synergex.

**“Record Date”** means January 24, 2004, the date fixed by the Board as the date for the determination of Shareholders entitled to attend and vote at the Meeting.

**“Regulatory Approvals”** means any approval, consent, ruling, authorization, notice, permit or acknowledgement that may be required from any Person by Applicable Law, the terms of any Licence or the conditions of any Order which is required pursuant to such Applicable Law, Licence or Order in connection with the sale of the Purchased Shares to the Corporation and the completion of the other transactions contemplated in the Share Exchange Agreement or which is otherwise necessary to permit the parties to the Share Exchange Agreement to perform their obligations or is otherwise required to permit the consummation of the transactions as contemplated in the Share Exchange Agreement.

**“Related Party Rules”** means, collectively Rule 61-501, Policy 5.9 of the TSXV and other applicable analogous rules or policies promulgated by other regulatory authorities in Canada.

**“Resulting Issuer”** means the Corporation following the completion of the Acquisition.

**“Rule 61-501”** means Rule 61-501 – *Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions* of the Ontario Securities Commission.

**“Securities Act”** means the *Securities Act* (Ontario), R.S.O. 1990, c. S.5 including the regulations and rules promulgated thereunder, both as amended from time to time.

**“Securities Authorities”** means the Ontario Securities Commission and the other relevant securities regulatory authorities in the provinces and territories of Canada, collectively.

**“Series A Preferred Shares”** means Series of A Preferred Shares of the Corporation, the rights, privileges, conditions of which are set out in the Articles of Amendment.

**“Share Exchange Agreement”** means the share exchange agreement relating to the Acquisition entered into by David Aiello, Matthew Reiter and the Corporation on October 22, 2004, as amended and restated as of December 15, 2004.

**“Shareholders”** means shareholders of the Corporation.

**“Subsidiary” or “Subsidiaries”** means, with respect to a specified body corporate, a body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the directors thereof, whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency, are at the time owned, directly or indirectly, by such specified body corporate.

**“Synergex”** means Synergex Group Inc.

**“Synergex Logistics”** means Synergex Logistics Corp., a corporation incorporated pursuant to the laws of Ontario 85% of the common shares of which are owned by Synergex and 15% of the common shares of which are owned by Matthew Reiter.

**“Synergex Shares”** means issued and outstanding shares of Synergex.

**“Tax Act”** means the *Income Tax Act* (Canada), R.S.C. 1985, C. 1 including the regulations promulgated thereunder, both as amended from time to time.

**“Transfer Agent”** means Equity Transfer Services Inc., the Corporation’s registrar and transfer agent.

**“TSXV”** means the TSX Venture Exchange.

**“Valuation and Fairness Opinion”** means the valuation and fairness opinion of the Valuator dated January 17, 2005 relating to the Acquisition, addressed to the Independent Committee.

**“Valuator”** means Kraft Yabrov Valuations Inc.

**“Vendor”** means David Aiello, in his capacity as the registered and beneficial owner of all of the issued and outstanding Synergex Shares.

## **SUMMARY**

*The following is a summary of certain information contained in this Circular. This summary is not intended to be complete and is qualified in its entirety by the more detailed information contained elsewhere in this Circular and the attached schedules, all of which are important and should be reviewed carefully.*

This Circular is comprised of three parts. Part 1 describes the procedures for attending or appointing proxies to vote at the Meeting and the annual meeting matters to be considered at the Meeting. Part 2 gives details about the special matters to be considered at the Meeting, being the Acquisition, the Articles Amendment and the confirmation of By-Law No. 3. Part 3 sets out information concerning the Corporation, Synergex and the Resulting Issuer.

### **Date, Place and Purpose of Meeting**

The Corporation has called a meeting of its shareholders to be held on February 24, 2005 at 5:00 p.m. (Toronto time) at Suite 2300, 200 King Street West, Toronto, Ontario to conduct its annual meeting business and to consider and, if thought fit, to approve the Acquisition Resolution, the Articles Amendment Resolution, the By-law Resolution and to transact such other business as may properly come before the Meeting.

### **The Acquisition**

The Corporation has entered into the Share Exchange Agreement with David Aiello and Matthew Reiter to purchase from David Aiello all the issued and outstanding shares of Synergex and to purchase from Matthew Reiter the 15,000 common shares (being the 15%) of Synergex Logistics Corp. which Synergex does not currently own (all other Subsidiaries of Synergex are wholly-owned), for a total purchase price of approximately \$14.4 million plus the Closing Working Capital. Please see "Special Matters – Description of the Acquisition."

### **Reasons for the Acquisition and Recommendation of the Board**

The Acquisition is expected to (i) provide a larger cash flow to the Corporation as a combined entity; (ii) provide enhanced access to public equity markets and for raising capital in the future; (iii) create a larger, more balanced entity with a more diversified asset base; (iv) provide the potential for greater liquidity for Shareholders; and (v) increase Synergex' and the Corporation's competitive positions in their given industries as a result of their increased size and public company status.

The Board has concluded that the Acquisition is in the best interests of the Corporation and has unanimously approved the Acquisition. The Board recommends that Shareholders vote to approve the Acquisition Resolution at the Meeting.

### **Articles Amendment**

Shareholders will be asked to consider, and if deemed advisable, to pass, with or without variation, a resolution to amend the Corporation's articles for the purpose of (i) restating the rights, privileges, conditions and restrictions attaching to the Common Shares (but not so as to result in any substantive change from the current attributes of the Common Shares), (ii) creating the Preferred Shares and Series A Preferred Shares and (iii) changing the name of the Corporation to "Synergex Corporation".

As Series A Preferred Shares are to be issued to the Vendor under the terms of the Share Exchange Agreement, completion of the Acquisition is conditional on, among other conditions, the approval of both the Acquisition Resolution and the Articles Amendment Resolution.

### **By-Law No. 3**

Shareholders will be asked to consider, and if deemed advisable, to pass, with or without variation, a resolution approving the repeal of the current by-laws of the Corporation and confirming the adoption of By-Law No. 3, being a by-law of the Corporation made by the directors on December 8, 2004. The purpose of implementing By-law No. 3, a copy of which is attached to this Circular as Schedule "C-2", is to provide for a general by-law more consistent with current practice for Canadian public companies.

### **Related Party Transaction**

As a result of the Vendor being an officer, director and significant shareholder of the Corporation, the Acquisition constitutes a "related party transaction" within the meaning of the Related Party Rules. Because of these relationships, the Independent Committee was formed to consider the Acquisition. The Independent Committee retained the Valuator to prepare the Valuation and Fairness Opinion relating to the terms of the Share Exchange Agreement.

### **Valuation and Fairness Opinion Conclusions**

Based upon and subject to the analyses, assumptions and other matters set out in the Valuation and Fairness Opinion, the Valuator is of the opinion that, as at October 31, 2004, the Acquisition (including the purchase price and the number of Common Shares, and aggregate value of Series A Preferred Shares, to be issued under the Acquisition) is fair, from a financial point of view, to the Minority Shareholders. Please see "Special Matters – Valuation and Fairness Opinion".

The summary of the Valuation and Fairness Opinion set out herein is qualified in its entirety by reference to the full text of the Valuation and Fairness Opinion, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders are urged to carefully read the Valuation and Fairness Opinion in its entirety.

### **Votes Required**

The Acquisition Resolution and the By-law Resolution must be approved by a majority of the votes cast in respect thereof and the Share Amendment Resolution must be approved by at least two-thirds of the votes cast at the Meeting, in order to comply with applicable securities laws at the Meeting. In addition, the Related Party Rules require that the Acquisition Resolution be approved by a majority of the votes cast in respect thereof by Minority Shareholders.

### **Accounting Matters**

The Acquisition will be accounted for as a continuity of interests of the Corporation in accordance with Canadian generally accepted accounting principles. Please see "Special Matters – Accounting Matters".

## **Dividend Policies**

The payment of dividends after completion of the Acquisition will depend upon the consolidated financial condition, capital requirements and earnings of the Corporation, as well as other factors that the Board may consider relevant. Please see "Information Regarding the Corporation – Dividend Policy".

## **Risk Factors**

There are a number of risk factors that should be considered by the Shareholders in evaluating whether to vote in favour of the Acquisition. Some of these factors relate directly to the Acquisition, while others relate to the respective businesses of Synergex and the Corporation. Please see "Information Regarding the Corporation – Risk Factors" and "Information Regarding Synergex – Risk Factors".

## **Interest of Management and Others in Material Transactions**

Certain individuals are officers, directors and/or significant shareholders of both the Corporation and Synergex. Please see "General Information and Annual Meeting Matters – Interests of Insiders in Material Transactions".

## **Financial Statements**

The unaudited consolidated financial statements of the Corporation as at and for the three month periods ended August 31, 2004 and 2003 and the audited consolidated financial statements of the Corporation as at and for the years ended May 31, 2004 (with May 31, 2003 comparatives) and 2003 (with May 31, 2002 comparatives) are attached as Schedule "G" to this Circular.

The unaudited consolidated financial statements of Synergex as at and for the ten-month period ended October 31, 2004 (with December 31, 2003 comparatives) and the audited consolidated financial statements of Synergex at and for the year ended December 31, 2003 (with December 31, 2002 comparatives) are attached as Schedule "H" to this Circular.

The unaudited *pro forma* consolidated financial statements of the Corporation (assuming the completion of the Acquisition) as at and for the three months ended August 31, 2004, consisting of a *pro forma* consolidated statement of operations and a *pro forma* balance sheet and for the year ended May 31, 2004, consisting of a *pro forma* consolidated income statement accompanied by an auditor's compilation report are attached as Schedule "I" to this Circular.

# **CARMA FINANCIAL SERVICES CORPORATION MANAGEMENT INFORMATION CIRCULAR**

## **PART 1 – GENERAL PROXY INFORMATION AND ANNUAL MEETING MATTERS**

### **Introduction**

This Circular is furnished to the Shareholders in connection with the solicitation of proxies by the directors and management of the Corporation to be used at the Meeting, for the purposes set forth in the accompanying Notice of Meeting. The costs of solicitation will be borne by the Corporation. The Corporation will reimburse banks, brokerage firms and other custodians, nominees, fiduciaries and intermediaries for their reasonable expenses incurred in sending proxy materials to beneficial owners of Common Shares and requesting authority to execute proxies.

### **Forward Looking Statements**

This Circular, together with the attached schedules, contains forward-looking statements within the meaning of certain applicable securities laws. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify these forward looking statements. Specifically, and without limiting the generality of the foregoing, all statements included in this Circular that address activities, events or developments that the Corporation (whether with respect to the Corporation, Synergex or otherwise) expects or anticipates will or may occur in the future, including such things as business strategies and measures to implement such strategies, competitive strengths, goals, expansion and growth of the business and operations, synergies, savings and benefits anticipated to be realized from the proposed Acquisition, plans and references to future results are forward looking statements, including, without limitation, those statements contained under the heading "Special Matters – Reasons for the Acquisition" and "Special Matters - Recommendations of the Board" in this Circular. These forward-looking statements include significant risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, many of which are beyond the control of the Corporation. These factors include, but are not limited to, those set forth in Part 3 of this Circular under the headings "Information Regarding the Corporation – Risk Factors" and "Information Regarding Synergex–Risk Factors".

Readers are cautioned not to place undue reliance on forward looking statements contained in this Circular, which reflect the judgements and opinions of management of the Corporation only as of the date of this Circular. There can be no assurance that the actual results or developments anticipated by the Corporation will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Corporation and the entities in which it has or will have equity investments or any of the business or operations of those entities. The Corporation does not undertake any obligation to update any of these forward-looking statements to reflect events or circumstances after the date of this Circular or to reflect the occurrence of unanticipated events.

Unless otherwise noted, all references to currency in this Circular are to Canadian dollars.

### **General Voting and Proxy Information**

The Corporation has made a list of all Persons who are registered holders of Common Shares as of the close of business on the Record Date, and the number of Common Shares registered in the name of each such Person on that date. Each Shareholder is entitled to one vote for each Common Share, as

applicable, registered in his or her name as it appears on the list except to the extent that such Shareholder has transferred any of his or her Common Shares after the Record Date and the transferee of those Common Shares produces properly endorsed share certificates or otherwise establishes that he or she owns the shares and demands, not later than ten days before the Meeting, that his or her name be included in the list. In such a case, the transferee is entitled to vote his or her Common Shares at the Meeting.

#### *Appointment of Proxies*

Management of the Corporation is furnishing this Circular to the Shareholders in connection with the solicitation of proxies for the Meeting.

The individuals named in the form of proxy for the Meeting are nominees of management of the Corporation. Shareholders desiring to appoint some other individual (who need not be a Shareholder) to represent them at the Meeting may do so by inserting in the blank space provided in the form of proxy the name of the individual they wish to appoint, striking out the names of the other nominees, and mailing the completed form of proxy to the Transfer Agent. In the event of the appointment of such individual as nominee, the instrument of proxy will be voted in accordance with instructions given to such nominee by the Shareholder.

#### *Revocation of Proxies*

In addition to revocation by any other manner permitted by Applicable Law, a Shareholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked by instrument in writing executed by the Shareholder or by his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal, or by an officer or attorney thereof duly authorized, and deposited at the offices of the Transfer Agent, at least two Business Days preceding the day of the Meeting, or any adjournment or adjournments thereof, at which the proxy is to be used or with the Chairman of the Meeting on the day of the Meeting, or any adjournment or adjournments thereof.

#### *Voting of Proxies*

**The enclosed form of proxy confers discretionary authority upon the individual(s) named therein with respect to amendments or variations to matters identified in the accompanying Notice of the Meeting, and with respect to other matters which may properly come before the Meeting. At the date of this Circular, management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in such notice. However, if other matters, which are not now known to management, should properly come before the Meeting, the accompanying proxy will be voted on such matters in accordance with the best judgement of the individual or individuals voting the proxy.**

To be effective, proxies must be received by the Transfer Agent, by mail or delivery to 120 Adelaide Street West, Suite 240, Richmond Adelaide Centre, Toronto, Ontario, Canada M5H 4C3 or by facsimile to (416) 361-0470, not later than 4:30 p.m. (Toronto time) on the second Business Day preceding the Meeting, or, if the Meeting is adjourned, not later than 4:30 p.m. (Toronto time) on the second Business Day preceding the date of such adjourned Meeting.

#### *Non-Registered Holders*

Only registered holders of Common Shares or the individuals they appoint as their proxies are permitted to vote at the Meeting. However, in many cases such shares beneficially owned by an applicable Non-Registered Holder are registered either: (i) in the name of an Intermediary with whom the

Non-Registered Holder deals in respect of the Common Shares such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or (ii) in the name of a clearing agency (such as The Canadian Depository for Securities Limited of which the Intermediary is a participant).

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation will distribute copies of the Notice of Meeting, form of proxy and this Circular to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders. Intermediaries are then required to forward the materials to the appropriate Non-Registered Holders. Non-Registered Holders will be given, in substitution for the proxy otherwise contained in proxy related materials, a request for voting instructions (the “**Voting Instructions Form**”) which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary, will constitute voting instructions which the Intermediary must follow.

The purpose of this procedure is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Should a Non-Registered Holder who receives the Voting Instructions Form wish to vote at the Meeting in person (or have another individual attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should so indicate in the place provided for that purpose in the Voting Instructions Form and a form of legal proxy will be sent to the Non-Registered Holder. In any event, Non-Registered Holders should carefully follow the instructions of their Intermediary set out in the Voting Instructions Form.

#### **Voting Securities and Principal Holders Thereof**

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of the date hereof, 58,220,452 Common Shares (and no preferred shares) are issued and outstanding. Each Common Share entitles the holder thereof to one vote in respect of each matter to be voted upon at the Meeting.

The holders of at least 20% of the outstanding Common Shares must be present in person or represented by proxy at the Meeting in order to form a quorum.

As at the date hereof, the following table sets forth the only Person who, to the knowledge of the directors and senior officers of the Corporation, beneficially own or exercise control or direction over more than 10% of the Common Shares.

Name	Number of Common Shares	Percentage of Common Shares
6232051 Canada Inc. <sup>1</sup> .....	30,149,999	51.8%

#### Note(s)

1 Mr. David Aiello, the President, Chief Executive Officer and Chief Operating Officer of the Corporation holds 100% of the common shares of 6232051 Canada Inc.

#### **Appointment of Auditors**

Unless such authority is withheld, the individuals named in the enclosed form of proxy intend to vote for the appointment of BDO Dunwoody LLP, Chartered Accountants, Toronto, Ontario, as auditors of the Corporation to hold office until the next annual meeting of Shareholders and to authorize the directors of the Corporation to fix the auditors’ remuneration. BDO Dunwoody LLP were first appointed as auditors of the Corporation on March 17, 2004.

## Election of Directors

The articles of the Corporation provide for a minimum of one and a maximum of eight directors. The provisions of the OBCA require that a corporation which offers its securities to the public have a minimum of three directors. The Board has been set at five, and five directors will be elected at the Meeting. Unless authority to do so is withheld, the individuals named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Management does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting or any adjournment thereof, it is intended that discretionary authority will be exercised by the individuals named in the enclosed form of proxy to vote the proxy for the election of any other individual or individuals in place of any nominee or nominees unable to serve. Each director elected will hold office until the close of business of the first annual meeting of Shareholders following his election unless his office is earlier vacated in accordance with the Corporation's by-laws and the OBCA.

The statement as to the Common Shares beneficially owned or over which control or direction is exercised by the nominees for election as directors hereinafter named is in each instance based upon information furnished by the nominees.

The following table sets forth certain information pertaining to the nominees for election as directors at the Meeting:

Name and Residence	Position with the Corporation	Present Principal Occupation or Employment	Number of Common Shares owned Directly or Indirectly or Over which Control or Discretion is Exercised <sup>(8)</sup>	Year Became Director
David Aello <sup>(2)</sup> Toronto, Ontario, Canada	Director and Chairman of the Board	Chairman of the Board	Nil	2003
David Aiello <sup>(1)(3)</sup> Toronto, Ontario, Canada	President, Chief Executive Officer, Chief Operating Officer and Director	President, Chief Executive Officer, Chief Operating Officer of the Corporation; President of Synergex	30,149,999 <sup>(7)</sup>	2003
Tom Davidson <sup>(1)(4)</sup> Aurora, Ontario, Canada	Director	Chairman and Chief Executive Officer of Nisim International Inc.	108,000	2000
John L. Smith <sup>(5)</sup> Mississauga, Ontario, Canada	Corporate Secretary, Senior Vice President and Director	Corporate Secretary and Senior Vice President of the Corporation	30,000	2003
Richard Watson <sup>(1)(6)</sup> Toronto, Ontario, Canada	Director	Lawyer	360,000	2003

Notes:

- 1 Current member of the Corporation's audit committee (the "Audit Committee").
- 2 Mr. Aello was appointed to the Board on June 2, 2003. Mr. Aello is the President of Marwick Manufacturing Inc., and has held this position since founding such company 35 years ago. Mr. Aello brings over 35 years of experience in business, having successfully built and grown both manufacturing and service businesses. Mr. Aello is also a director of The William Osler Hospital Foundation.
- 3 Mr. Aiello was appointed to the Board on September 23, 2003. On June 16, 2004, Mr. Aiello was appointed President, Chief Executive Officer and Chief Operating Officer of the Corporation. Mr. Aiello also holds the position of

President of Synergex, a logistics and distribution business and has held this position since 1987. Mr. Aiello brings to the Corporation over 17 years of experience operating several successful companies in the logistics and distribution business. Mr. Aiello is also a director and officer of several non-material private companies, some of which have commercial dealings with Synergex. The cumulative amount of the transactions are not material with respect to Synergex' gross revenue and net income. Mr. Aiello holds a Chartered Accountant designation from the Institute of Chartered Accountants of Ontario.

- 4 Mr. Davidson was elected to the Board on June 28, 2000. Mr Davidson is currently Chief Executive Officer and Chairman of Nisim International Inc., an international hair and skin care manufacturer selling products into 31 countries around the world. Mr. Davidson is also principal owner of Quarry Hill Foundry Supplies Inc., a manufacturer of supplies for the foundry and casting industry. Mr. Davidson also holds directorship positions with Quarry Hill Partners, Clemmer Technologies Inc., Nu-Tech Precision Metals and the Young Presidents Organization. Mr. Davidson graduated with a B.Sc. in Petroleum Engineering from Michigan State University in 1981.
- 5 Mr. Smith was appointed as the Corporation's Corporate Secretary and Senior Vice President on June 16, 2004 and from August 19, 2003 and until such date he was the President and Chief Operating Officer of the Corporation. Mr. Smith was elected to the Board on September 11, 2003. Mr. Smith continues as President and Chief Operating Officer of the Corporation's two operating companies (Lumberman's Credit Bureau Limited and Canada Bonded Attorney and Legal Directory, Limited). Mr. Smith brings over 20 years of experience in the Canadian financial services sector, having held executive management positions with both domestic and foreign financial institutions in their commercial, asset-based lending and retail units. Mr. Smith held various positions with the Laurentian Bank of Canada, including Senior Vice President, Commercial Banking, during the period of August 1990 to September 2002.
- 6 Mr. Watson was elected to the Board on June 2, 2003. Mr. Watson is a lawyer who has practised corporate and commercial law in Toronto since 1977. He has acted as an advisor, director and officer to a number of public and private companies in a variety of industries, including financial services, merchant banking, venture capital, manufacturing, logistics and media.
- 7 6232051 Canada Inc., a company controlled by David Aiello, holds 30,149,999 Common Shares.
- 8 As of January 19, 2005, the current directors and senior officers of the Corporation and its subsidiaries as a group owned beneficially, directly and indirectly, 30,647,999 Common Shares, representing 52.64% of the issued and outstanding Common Shares.

## **Other Matters**

Except for the special matters described in Part 2 of this Circular, management of the Corporation knows of no other matters to come before the Meeting. However, if other matters which are not now known to management of the Corporation should properly come before the Meeting, the proxy will be voted on such matters in accordance with the best judgement of the individual(s) voting the proxy.

## **Executive Compensation**

The following table sets forth the annual compensation, long-term compensation and all other compensation paid to the Corporation's Chief Executive Officer, Chief Financial Officer and to Mr. John Smith (the "Named Executive Officers") for the fiscal years ended May 31, 2004, 2003 and 2002.

**Summary Compensation Table**

Name and Principal Position	Year Ended May 31	Annual Compensation			Long-term Compensation Awards		Payouts	All other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/ SARs <sup>(1)</sup> Granted (#)	Shares or Units subject to Resale Restrictions (\$)		
David Aiello <sup>(2)</sup> , President, CEO and COO	2004	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2003	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A
John L. Smith <sup>(3)</sup> , Senior VP and Corporate Secretary	2004	112,917	Nil	10,000	500,000	Nil	Nil	Nil
	2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ralph Sickinger <sup>(4)</sup> , former President and CEO	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2003	176,350	Nil	13,800	Nil	Nil	Nil	Nil
	2002	90,000	10,000	13,881	Nil	Nil	Nil	Nil
Bill Zabarylo <sup>(5)</sup> , former CFO	2004	11,820	Nil	Nil	Nil	Nil	Nil	Nil
	2003	38,025	Nil	Nil	50,000	Nil	Nil	Nil
	2002	12,700	Nil	Nil	Nil	Nil	Nil	Nil
Bob Sickinger <sup>(6)</sup> , former CFO	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2003	71,250	Nil	15,833	Nil	Nil	Nil	Nil
	2002	4,500	Nil	1,000	Nil	Nil	Nil	Nil

Notes:

- 1 "SAR" means a stock appreciation right.
- 2 David Aiello was the Corporation's Chief Financial Officer until June 16, 2004.
- 3 John Smith was the Corporation's President and Chief Operating Officer until June 16, 2004.
- 4 Ralph Sickinger was the Corporation's President until August 19, 2003 and Chief Executive Officer until September 19, 2003.
- 5 Bill Zabarylo was the Corporation's Chief Financial Officer until September 22, 2003.
- 6 Bob Sickinger was the Corporation's Chief Financial Officer until July 19, 2002.

**Long-Term Incentive Plan ("LTIP") Awards During the Financial Year Ended May 31, 2004**

Name	Securities, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Securities Price-Based Plan		
			Threshold (\$ or #)	Target (\$ or #)	Maximum (\$ or #)
David Aiello, President, CEO, and COO	Nil	Nil	N/A	N/A	N/A
John L. Smith, Senior VP and Corporate Secretary	Nil	Nil	N/A	N/A	N/A

### ***Options and SARs***

The following table sets out SARs and options to purchase shares of the Corporation or any of its Subsidiaries granted to Named Executive Officers during the financial year ended May 31, 2004.

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
David Aiello, President, CEO, and COO	Nil	N/A	N/A	N/A	N/A
John L. Smith, Senior VP and Corporate Secretary	500,000	79.7%	\$0.58	\$0.58	Sept 19, 2008

The following table sets out options and SARs exercised by the Named Executive Officers during the financial year ended May 31, 2004, and the financial year-end value of unexercised options and SARs, on an aggregated basis.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)
David Aiello, President, CEO, and COO	Nil	Nil	Nil	N/A
John L. Smith, Senior VP and Corporate Secretary	85,000	\$23,200	415,000	\$0.58 at issue date \$0.70 at May 31, 2004

### **Indebtedness of Directors and Executive Officers**

None of the directors or executive officers is indebted to the Corporation.

### **Indebtedness of Directors and Executive Officers under Securities Purchase and other Programs**

As of the date hereof, no individual who is, or at any time during the most recently completed financial year of the Corporation ended May 31, 2004, was, a director or senior officer of the Corporation, no individual proposed as a nominee for election as a director of the Corporation and no associates or any such director, officer or proposed nominee, has been indebted to the Corporation or any of its Subsidiaries, nor has any such individual's indebtedness to another entity at any time since the beginning of the most recently completed financial year been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation (or any of its Subsidiaries) in connection with the purchase of securities of the Corporation.

## **Termination of Employment, Change in Responsibilities and Employment Contracts**

### *Employment Arrangements with Executive Officers*

David Aiello, CA was appointed President, Chief Executive Officer and Chief Operating Officer of the Corporation on June 16, 2004. He had been previously appointed Chief Financial Officer on September 23, 2003 (a position he no longer holds). He also joined the Board of Directors on September 23, 2003. By an employment agreement dated December 6, 2004, Mr. Aiello has agreed to accept no remuneration or compensation from the Company at this time. His agreement includes certain confidentiality provisions and a 36-month covenant restriction for non-solicitation of clients and employees related to the business of the Company. The agreement requires a review of the compensation by the Board upon completion of the pending transaction with Synergex, whereby compensation would be amended to not exceed the compensation paid to Chief Executive Officers of public companies of similar size and stature.

John L. Smith was appointed Corporate Secretary and Senior Vice President of the Corporation on June 16, 2004 and a member of the Board on September 11, 2003. From August 18, 2003 to June 16, 2003 John L. Smith was the President and Chief Operating Officer of the Corporation. By an employment agreement dated August 19, 2003, as amended by agreement dated November 26, 2003, Mr. Smith is entitled to receive an annual base salary of \$150,000 as well as the receipt of 500,000 options under the Corporation's Stock Option Plan, which vest upon satisfaction of certain agreed upon objectives approved by the Board. Please see "Executive Compensation – Options and SARS". In addition, Mr. Smith is entitled to receive a car allowance of \$1,000 per month and receive a term life insurance policy equal to three times his base salary.

### *Compensation of Directors*

During the financial year ended May 31, 2004, none of the non-management directors received an annual retainer for services rendered to the Board or a fee in respect of meetings of the Board or sub-committee attended, in person or by telephone conference. In exchange for services rendered during the year, two non-management directors, namely Tom Davidson and Richard Watson, received a cash payment of \$7,500 each for their time and work on the Independent Committee formed to consider and review the proposed Acquisition on behalf of the Board.

Management directors did not receive any compensation for services rendered to the Board in addition to that payable to them as officers. See "Executive Compensation – Summary Compensation Table".

### **Directors' and Officers' Liability Insurance and Indemnification**

The Corporation has purchased liability insurance for its directors and officers. The aggregate premium for such insurance for the one year period from May 31, 2004 to May 31, 2005 is \$7,500, no part of which is payable by the directors or officers of the Corporation. The aggregate annual insurance coverage under the policies is limited to \$1,000,000 per policy year. There is a \$25,000 deductible provision for any claim made by the Corporation, but no such provisions for claims made by any director or officer.

### **Stock Option Plan**

The Corporation has established a stock option plan, as amended, to provide incentive compensation to the Corporation's directors, officers, employees, and consultants (the "Stock Option

**Plan").** The Stock Option Plan provides for the maximum issuance of 3,800,000 Common Shares. The maximum number of Common Shares which may be reserved for issuance to any one person under the Stock Option Plan is 5% of the Common Shares outstanding at the time of the grant (on a non-diluted basis) less the aggregate number of Common Shares reserved for issuance to such person under any other option to purchase Common Shares from treasury granted as a compensation or incentive mechanism. The maximum number of Common Shares which may be reserved for issuance to any consultant in any 12 month period under the Stock Option Plan is 2% of the Common Shares outstanding at the time of the grant (on a non-diluted basis) less the aggregate number of Common Shares reserved for issuance to the consultant under any other option to purchase Common Shares from treasury granted as a compensation or incentive mechanism. The maximum number of Common Shares which may be reserved for issuance to all participants engaged in investor relations activities in any 12 month period under the Stock Option Plan is 2% of the Common Shares outstanding at the time of the grant (on a non-diluted basis). Options granted under the Stock Option Plan are exercisable over a period not exceeding five years, subject to earlier cancellation upon the termination of the optionee's employment, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Corporation or any of its Subsidiaries, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The options are non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable in the event of a subdivision, consolidation, reclassification or change of the Common Shares, or a merger or other relevant changes in the Corporation's capitalization. The Stock Option Plan does not contain any provision for financial assistance by the Corporation in respect of options granted thereunder.

#### **Securities Authorized for Issuance under the Corporation's Equity Compensation Plans**

<b>Plan Category</b>	<b>Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	536,100	\$0.42	1,762,700
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>536,100</b>	<b>N/A</b>	<b>1,762,700</b>

#### **Interest of Interested Persons in Material Transactions**

No director, executive officer, principal shareholder or associate of the foregoing persons has or had any material interest, direct or indirect, in any transaction within the last three years or in any proposed transaction which, in either such case, has materially affected or will materially affect the Corporation, except as otherwise disclosed below (and except for the compensation entitlements described above).

David Aiello is a director, senior officer and a significant shareholder of the Corporation and also the Chief Executive Officer and the beneficial owner of all the issued and outstanding shares of Synergex. Mr. Aiello will continue as a director and as a senior officer with the Resulting Issuer following the Acquisition.

In addition to the Acquisition, which is to be considered at the Meeting, the Corporation and Synergex entered into a five-year occupancy agreement for its new headquarters in Mississauga, Ontario. These leasing arrangements were described in a press release issued by the Corporation on October 22, 2004.

## **Audit Committee**

### *Composition of the Audit Committee*

The Audit Committee is composed of David Aiello, Tom Davidson and Richard Watson. Richard Watson and Tom Davidson are independent of management. David Aiello, Tom Davidson and Richard Watson are financially literate as defined by Multilateral Instrument 52-110 of the Canadian Securities Administrators (“**MI 52-110**”).

### *The Audit Committee’s Charter*

The Audit Committee’s Charter is attached as Schedule “E” to this Circular.

### *Audit Committee Oversight*

At no time since the commencement of the last financial year was a recommendation of the Audit Committee to nominate an external auditor not adopted.

### *Reliance on Certain Exemptions*

At no time since the commencement of the Corporation’s most recently completed financial year has the Corporation relied on the exemption in Section 2.4 of MI 52-110 (*De Minimis Non-Audit Services*), or an exemption from MI 52-110, in whole or in part, granted under Part 8 of MI 52-110.

### *External Auditor Service Fees (By Category)*

The aggregate fees billed by the Corporation’s external auditors in each of the last two fiscal years for audit fees are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
May 31, 2004	\$74,500	Nil	*	Nil
May 31, 2003	\$50,923	Nil	\$26,200	\$4,350

\* included with Audit Fees (BDO were appointed as new auditors for 2004 and did not provide separate invoices or pricing for audit and taxes.)

## **Statement of Corporate Governance Practices of the Corporation**

As a part of its responsibilities as a TSXV listed company, the Corporation is required to provide to Shareholders a statement of its corporate governance practices on an annual basis. The Toronto Stock Exchange (the “**TSX**”) has established guidelines (the “**TSX Guidelines**”) for effective corporate governance which are contained in the final report of the TSX Committee on Corporate Governance. The TSX Guidelines deal with the constitution and independence of corporate boards and board committees, the functions to be performed by boards and their committees, and the effectiveness and education of board members, and other matters relevant to corporate governance. The TSX Guidelines serve as general guidelines to TSXV issuers. Specific reference to the TSX Guidelines and the Corporation’s practice with respect to the guidelines, are set out in Schedule “F” to this Circular.

## PART 2 – SPECIAL MATTERS

### The Acquisition

#### *Background of Transaction*

The Board appointed new senior management in August 2003 with a mandate to review the overall cost structure of the Corporation's business and make recommendations to improve overall profitability. An area of concern that became quickly evident during this review was the cost of operating as a publicly traded company with a relatively small revenue base. Legal and other costs associated with the operation of a public company had a major impact on expenses of the Corporation. Solutions to this problem included increasing the revenue base through an acquisition and to undertake an overall expense rationalization program.

In reviewing potentially beneficial strategic initiatives, management and the Board determined that a potential transaction with Synergex should be further considered. Through an acquisition of Synergex, the Corporation could benefit from a larger operating base, which would allow Synergex, a growing business with many opportunities, access to public markets to raise capital in support of future growth, for the benefit of all shareholders. Management of the two business operations reviewed the potential reciprocal operating and strategic benefits of a transaction. It was soon evident that a combined entity could offer its clients and the marketplace an exciting full service current asset management package, including purchasing, payment resolution, logistics, inventory management, sales and marketing support, credit management, receivables management, and collections services. Based on this conclusion, negotiations were then entered into by the parties over the intervening months in order to finalize and execute the Share Exchange Agreement. During this period, the Independent Committee also retained the Valuator and took the other steps described below to review and consider the Acquisition.

#### *Description of the Acquisition*

The Corporation has entered into the Share Exchange Agreement under which it is to purchase (i) from David Aiello all the issued and outstanding shares of Synergex, and (ii) from Matthew Reiter the 15,000 common shares (comprising a 15% ownership interest) in Synergex Logistics not currently owned by Synergex. The aggregate purchase price for the Purchased Shares is to be \$14,399,999.91 plus the amount of the Closing Working Capital. The Corporation will satisfy the Purchase Price (i) by issuing to David Aiello 52,763,333 Common Shares, at a deemed issue price of \$0.27 per share, and such number of Series A Preferred Shares (each Series A Preferred Share being valued at \$1.00) as have an aggregate redemption value equal to the Closing Working Capital, and (ii) by issuing to Matthew Reiter 570,000 Common Shares at such deemed issued price. It is a condition of the completion of the Acquisition that the Closing Working Capital be not less than \$3,000,000.

The Series A Preferred Shares, as a series, are to be created under the terms of the Articles Amendment Resolution. Please see "Articles Amendments" below.

### Related Party Transaction

Since Synergex is owned by David Aiello, who is a director, senior officer and a significant shareholder of the Corporation, the Acquisition constitutes a "related party transaction" within the meaning of the Related Party Rules. Because of these relationships, the Independent Committee was formed to consider the Acquisition. The Independent Committee retained the Valuator to prepare the Valuation and Fairness Opinion in respect of the terms of the Acquisition, a copy of the Summary Fairness Opinion and Valuation Report is attached as Schedule "L" to this Circular. In addition, in

accordance with the Related Party Rules, the Acquisition will require approval by the Minority Shareholders, being approval at the Meeting by the holders of a majority of the Common Shares held by Minority Shareholders voted in respect of the Acquisition Resolution. Please see "Reasons for the Acquisition", "Deliberations and Recommendations of the Independent Committee" and "Recommendations of the Board" below.

### **Reasons for the Acquisition**

The Acquisition is expected to (i) provide a larger cash flow to the Corporation as a combined entity; (ii) provide more potential for access to public equity markets and for raising capital in the future; (iii) create a larger, more balanced entity with a more diversified asset base; (iv) provide the potential for greater liquidity for shareholders; and (v) increase Synergex' and the Corporation's competitive positions in their given industries as a result of their increased size and public company status.

### **The Independent Committee**

On August 13, 2004, an independent committee (the "**Independent Committee**") was formed by the Board to consider the Acquisition. The Independent Committee was comprised of Richard Watson (who chaired the Independent Committee) and Tom Davidson, both of whom are independent directors of the Corporation.

The Board authorized the Independent Committee to, among other things, assess the fairness and the terms of the Acquisition having regard to any factors considered relevant by the Independent Committee and, in connection therewith, to retain a recognized independent valuation firm to assist the Independent Committee in assessing the fairness, from a financial point of view, of the terms of the Acquisition.

The Independent Committee did not retain independent counsel, although Richard Watson (the chair of the Independent Committee), is a lawyer who has practised corporate and commercial law for many years. The Independent Committee also retained the Valuator to prepare and deliver the Valuation and Fairness Opinion, in order to determine whether the Acquisition is fair, from a financial point of view, to the Minority Shareholders. The Independent Committee satisfied itself that the Valuator was a qualified independent valuator, and competent to prepare the Valuation and Fairness Opinion.

### **Valuation and Fairness Opinion**

The terms of the engagement agreement with the Valuator provide for fees that do not depend, in whole or in part, upon the conclusions reached in respect of, or the successful outcome of, the Acquisition. Neither the Valuator nor any of its affiliates is an associate or affiliate (as such terms are defined in the OBCA) of the Corporation or Synergex or any of their respective associates or affiliates. The Valuator has not been engaged to provide any advisory services within the past two years other than the services relating to the Valuation and Fairness Opinion. There are no understandings, agreements or commitments between the Valuator and the Corporation and/or Synergex or any of their respective associates or affiliates with respect to any future business dealings.

Prior to providing their recommendation in respect of the Acquisition to the Board, the Independent Committee was provided with an oral report by the Valuator confirming the Valuator's views as to valuation ranges and that the terms of the Acquisition were fair, from a financial point of view, to the Minority shareholders. The Independent Committee received the formal Valuation and Fairness Opinion from the Valuator on January 17, 2005. The Valuation and Fairness Opinion is subject to the assumptions, limitations and considerations contained therein and should be read in its entirety.

The Valuation and Fairness Opinion is rendered on the basis of securities markets, economic, financial and business conditions prevailing October 31, 2004 and the condition and prospects, financial and otherwise, of the Corporation and Synergex as they were reflected in the information provided to the Valuator and as they have been represented to the Valuator in discussions with management of the Corporation and Synergex. In its analysis and in preparing the Valuation and Fairness Opinion, the Valuator made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Valuator or any party involved in the Acquisition.

In carrying out its valuation of Synergex, the Valuator concluded that the most appropriate method of determining fair market value was with reference to maintainable earnings. This capitalized earnings approach utilized three components to arrive at fair market value, being (i) an estimate of future maintainable after-tax earnings that Synergex is capable of producing over time; (ii) the capitalization rate or its inverse, the price-earnings multiple; and (iii) the value of redundant or non-operating assets. Applying the foregoing methodology, the Valuator calculated that the total fair market value for Synergex was in the range of approximately \$19.4 million to approximately \$20.0 million.

In carrying out its valuation of the Common Shares, the Valuator concluded that neither a "market price" approach nor an earnings approach would be appropriate, but rather that an asset approach should be used. The Valuator concluded that the estimated fair market value of the net asset value per share of the Corporation was \$0.03 to \$0.04 per share.

Based on the foregoing, the Valuation and Fairness Opinion concludes that the Acquisition is fair, from a financial point of view, to the Minority Shareholders.

**The Summary Fairness Opinion and Valuation Report is qualified in its entirety by reference to the full text of the Valuation and Fairness Opinion.** The Valuation and Fairness Opinion is available on SEDAR at [www.sedar.com](http://www.sedar.com) or may be inspected during regular business hours at the offices of the Corporation. The Valuation and Fairness Opinion is also available at no charge upon request to the Corporation.

#### **Deliberations and Recommendations of the Independent Committee**

The Independent Committee formally met on several occasions, both independently and with management of the Corporation, and also engaged in separate ongoing discussions between themselves and with the Valuator. The terms and provisions of the Share Exchange Agreement were reviewed by the Independent Committee with representatives of the Corporation.

The Independent Committee considered the benefits of the Acquisition and also considered that the Acquisition would be subject to Minority Shareholder approval. The Independent Committee relied upon the Valuator's verbal opinion as to values and fairness, and their confirmation that the Valuation and Fairness Opinion would be provided for inclusion in this Circular. The Independent Committee did not reach its conclusions concerning the Acquisition by individually assigning relative or specific weights to any one or group of factors and individual members of the Independent Committee may have assigned differing weights to different factors.

**Based on the factors described above, the Independent Committee unanimously determined that the Acquisition on the terms and conditions set forth in the Share Exchange Agreement is fair to the Minority Shareholders and unanimously recommended that the Board approve the Acquisition on the terms set out in the Share Exchange Agreement.**

## **Recommendations of the Board**

The Board, based upon, among other things, the unanimous recommendations of the Independent Committee and the verbal opinions of the Valuator (which are now formally reflected in the Valuation and Fairness Opinion) has concluded that the Acquisition is in the best interests of the Corporation and the Shareholders, and unanimously approved the Acquisition and recommends that Shareholders vote to approve the Acquisition Resolution at the Meeting. Certain members of the Board, Messrs. Aello and Aiello, did not vote on the approval of the Acquisition because of Mr. Aiello's ownership of, and position in, Synergex (and the familial relationship between him and Mr. Aello).

## **The Share Exchange Agreement**

The Share Exchange Agreement sets forth certain representations, warranties and covenants of the Corporation and the vendors regarding their status (and Synergex' status), and regarding the financial condition, assets and other matters relating to the Corporation and Synergex, and contemplates the Acquisition on the terms described in this Circular, including the conditions described below to be fulfilled at or before the Closing Time or such other time as is specified in the Share Exchange Agreement.

### *Mutual Conditions*

The Share Exchange Agreement provides that the Acquisition is subject to the satisfaction or waiver by each party thereof of certain mutual conditions, including the following:

- (a) the Share Exchange Agreement having been approved at the Meeting by the Minority Shareholders in accordance with the provisions of the OBCA and the requirements of any applicable regulatory authority;
- (b) the Articles of Amendment having been filed in form and substance satisfactory to the Vendor, acting reasonably;
- (c) there not being in force any Applicable Law or Order, and there not having been any action taken under any Applicable Law or by any Governmental Authority or other regulatory authority, that makes it illegal or otherwise directly or indirectly restrains, enjoins or prohibits the transactions contemplated in the Share Exchange Agreement in accordance with the terms thereof or results or could reasonably be expected to result in an Order or assessment of damages, directly or indirectly, relating to the Share Exchange Agreement which has, or could reasonably be expected to have, a Material Adverse Effect on the Corporation or Synergex;
- (d) the TSXV having conditionally approved the listing thereon of the Common Shares to be issued pursuant to the Share Exchange Agreement as of the Closing Date, or as soon as possible thereafter, subject only to compliance with the usual requirements of the TSXV;
- (e) all consents, regulatory approvals, exemptions, orders and registrations (including those required of third parties) having been obtained or received on terms that are reasonably satisfactory to each party; and
- (f) the Share Exchange Agreement not having been terminated in accordance with its terms.

*Conditions for the Benefit of the Corporation*

The obligation of the Corporation to complete the transactions set out in the Share Exchange Agreement is subject to the fulfilment of certain conditions, including the following;

- (a) all representations and warranties of the Vendor and Matthew Reiter made in or pursuant to the Share Exchange Agreement being true and correct in all material respects as of the date of the Share Exchange Agreement and at the Closing Time;
- (b) each of the Vendor and Matthew Reiter having performed or complied with, in all material respects, all obligations, covenants and agreements contained in the Share Exchange Agreement to be performed by such parties at or prior to the Closing Time;
- (c) a satisfactory legal opinion of legal counsel for Synergex dated the Closing Date shall have been received by the Corporation at the Closing Time;
- (d) during the Interim Period, there having been no change in Synergex' business, or in the operations, affairs, prospects or condition (financial or otherwise) of Synergex or any of its Subsidiaries which, in the reasonable opinion of the Corporation, would have a Material Adverse Effect on Synergex or any of its subsidiaries or on Synergex' business;
- (e) all Consents necessary to keep the Material Contracts in full force and effect and to enable Synergex and the relevant Subsidiaries to continue to enjoy all rights and benefits thereunder shall have been granted, obtained and received unconditionally or on terms satisfactory to the Corporation, acting reasonably;
- (f) all Regulatory Approvals required to keep the Material Licences held by Synergex and its Subsidiaries in good standing and to otherwise enable Synergex and its Subsidiaries to continue to enjoy all rights and benefits thereunder and to carry on Synergex' business after the Closing in the same manner as it is currently carried on shall have been granted, obtained and received unconditionally or on terms satisfactory to the Corporation, acting reasonably;
- (g) no Order having been made and no Legal Proceeding having been commenced or be pending or threatened against Synergex, any of its Subsidiaries or any party to the Share Exchange Agreement which would adversely affect the title of the Vendor or Matthew Reiter to the Purchased Shares or which enjoins, restricts or prohibits, or which asserts a claim or seeks a remedy that would have the effect of enjoining, restricting or prohibiting the completion of the transactions contemplated in the Share Exchange Agreement, or which, in the result, could prohibit or materially restrict Synergex or any of its Subsidiaries from carrying on Synergex' business in the ordinary course after Closing;
- (h) the Corporation having received such other opinions, agreements, certificates, affidavits, statutory declarations, instruments of transfer and other documentation reasonably required by the Corporation to implement the transactions contemplated in the Share Exchange Agreement, all of which is to be satisfactory in form and substance to counsel for the Corporation, acting reasonably;
- (i) employment agreements satisfactory in form and substance to the Corporation having been entered into by the Corporation with the Vendor and Matthew Reiter, and with other

- key personnel of Synergex and each applicable Subsidiary who are identified by the Corporation for such purpose and agreed to by the Corporation;
- (j) non-competition agreements satisfactory in form and substance to the Corporation shall have been entered into by the Vendor and Matthew Reiter with the Corporation;
  - (k) the Closing Working Capital being at least \$3,000,000; and
  - (l) there being no loans receivable from or loans payable to any Interested Person of Synergex or its Subsidiaries, all loans payable to any Interested Person of Synergex or its Subsidiaries having been repaid or exchanged for Series A Preferred Shares and the Corporation having received unaudited consolidated financial statements or other evidence of such conditions being met, satisfactory to the Corporation.

*Conditions for the Benefit of the Vendor and Matthew Reiter*

The obligation of the Vendor and Matthew Reiter to complete the transactions set out in the Share Exchange Agreement is subject to the fulfilment of certain conditions, including the following:

- (a) the representations and warranties of the Corporation made in or pursuant to the Share Exchange Agreement being true and correct in all material respects as of the date of the Share Exchange Agreement and at the Closing Time;
- (b) the Corporation having performed or complied with, in all material respects, all obligations, covenants and agreements contained in the Share Exchange Agreement to be performed by it at or prior to the Closing Time;
- (c) a satisfactory legal opinion of the Corporation's legal counsel dated the Closing Date shall have been received by the Vendor and Matthew Reiter at the Closing Time;
- (d) during the Interim Period, there having been no change in the Corporation's business, or in the operations, affairs, prospects or condition (financial or otherwise) of the Corporation or any of the Corporation's Subsidiaries which, in the reasonable opinion of the Vendor, would have a Material Adverse Effect on the Corporation or any of the Corporation's Subsidiaries or on the Corporation's business;
- (e) all Regulatory Approvals applicable to the Corporation, including approval of the TSXV and the Securities Authorities, having been obtained and evidence of each such approval, satisfactory to the Vendor, having been provided to the Vendor;
- (f) no Order having been made and no Legal Proceeding having been commenced or be pending or threatened against the Corporation, any the Corporation's Subsidiaries or any other party to the Share Exchange Agreement which enjoins, restricts or prohibits, or which asserts a claim or seeks a remedy that would have the effect of enjoining, restricting or prohibiting the completion of the transactions contemplated in the Share Exchange Agreement, or which, in the result, could prohibit or materially restrict the Corporation or any of the Corporation's Subsidiaries from carrying on the Corporation's business in the ordinary course after Closing;
- (g) the Minority Shareholders having approved the Share Exchange Agreement at the Meeting and satisfactory evidence of such approval having been provided; and

- (h) the Vendor having received such other opinions, agreements, certificates, affidavits, statutory declarations, instruments of transfer and other documentation reasonably required by him to implement the transactions contemplated in the Share Exchange Agreement all of which is to be satisfactory in form and substance to counsel for the Vendor, acting reasonably.

*Representations, Warranties and Covenants*

The Corporation, the Vendor and Matthew Reiter made certain representations, warranties and covenants, including, but not limited to, the following representations, warranties and covenants of the Corporation to the Vendor and Matthew Reiter:

- (a) the Corporation has the corporate authority, power and capacity to enter into the Share Exchange Agreement and to carry out its obligations thereunder;
- (b) the Series A Preferred Shares to be issued pursuant to the Share Exchange Agreement will be issued as fully paid and non-assessable Series A Preferred Shares in the capital of the Corporation and will be subject to a four-month hold period in accordance with applicable securities laws;
- (c) the Corporation and its Subsidiaries are corporations duly incorporated, organized and subsisting under the laws of their respective jurisdictions of incorporation and the Corporation and its Subsidiaries have the necessary corporate power, authority and capacity to own, lease and use their property and assets and to carry on the business of the Corporation as it is now being conducted;
- (d) the minute books of the Corporation and its Subsidiaries are complete and other corporate records of the Corporation have been maintained in accordance with Applicable Law;
- (e) neither the entering into of the Share Exchange Agreement by the Corporation or any other instrument contemplated thereby, nor the completion of the Acquisition will conflict with, or result in the breach of violation or default under, or cause the acceleration of any obligation of the Corporation or its Subsidiaries under (i) any Applicable Law; (ii) the articles or by-laws or any resolution of the directors or Shareholders of the Corporation or its Subsidiaries; or (iii) any License, Order, agreement, Contracts or commitments to which the Corporation or its Subsidiaries are a party;
- (f) the Corporation and each of its Subsidiaries (i) has conducted and is conducting business in the ordinary course; and (ii) possesses all Licenses necessary to carry on businesses in compliance with Applicable Law;
- (g) since May 31, 2003, the Corporation has filed all documents required to be filed with the Securities Authorities, stock exchanges and all applicable self-regulatory authorities; and
- (h) the Corporation agreed to use commercially reasonable efforts to convene the Meeting no later than February 24, 2005.

The Vendor has made customary representations, warranties and covenants to the Corporation, including, but not limited to, the following:

- (a) he is the registered and beneficial owner of all the outstanding shares of Synergex, has good title to such shares free and clear of all Encumbrances and there are no restrictions of any kind on the transfer of such shares except those set out in the Articles of Synergex;
- (b) there are no Legal Proceedings in progress, pending, or to his knowledge threatened against or affecting him or his title to any of the Purchased Shares at law or in equity or before or by any tribunal;
- (c) Synergex and its Subsidiaries are duly incorporated, organized and subsisting under the laws of their respective jurisdictions of incorporation and Synergex and its Subsidiaries have the necessary corporate power, authority and capacity to own a lease and use their property and assets and to carry on Synergex' business as it is now being conducted;
- (d) the minute books of Synergex and its Subsidiaries are complete and other corporate records of Synergex have been maintained in accordance with Applicable Law;
- (e) the authorized and issued capital of Synergex consists of an unlimited number of common shares and an unlimited number of preference shares, of which only the Purchased Shares owned by the Vendor have been validly issued and are outstanding (as fully paid and non-assessable shares);
- (f) that Synergex owns all of the issued and outstanding shares of Synergex Logistics, other than those to be acquired from Matthew Reiter under the Acquisition;
- (g) there are no agreements, options, warrants, rights of conversion or other rights pursuant to which Synergex or any of its Subsidiaries is or may become, obligated to issue any shares or other securities;
- (h) neither the entering into of the Share Exchange Agreement by Synergex or any other instrument contemplated thereby nor the completion of the Acquisition will conflict with, or result in the breach of violation or default under, or cause the acceleration of any obligation of Synergex or its Subsidiaries under (i) any Applicable Law; (ii) the articles or by-laws or any resolution of the directors or shareholders of Synergex or its Subsidiaries; or (iii) any license, Order, agreement, Contracts or commitments to which Synergex or its Subsidiaries are a party; and
- (i) since December 31, 2003, Synergex has carried on business in the ordinary course and possesses all licenses necessary to carry on such business in compliance with Applicable Law.

Matthew Reiter has represented, warranted and covenanted with the Corporation as follows:

- (a) Matthew Reiter is the registered and beneficial owner of 15,000 common shares of Synergex Logistics (the “**Synergex Logistics Shares**”) and Mathew Reiter has and the Corporation will acquire, on the Closing Date, good title to the Synergex Logistics Shares, free and clear of all Encumbrances;
- (b) there are no restrictions of any kind on the transfer of the Synergex Logistics Shares except those set out in the Articles of Synergex Logistics. No person has, or has any right capable of becoming, any agreement, option, understanding or commitment for the

purchase or other acquisition from Matthew Reiter of any of the Synergex Logistics Shares; and

- (c) there is no Legal Proceeding in progress, pending, or, to his knowledge, threatened against or affecting him or affecting his title to any of the Synergex Logistics Shares at law or in equity before any tribunal.

The representations and warranties of each party to the Share Exchange Agreement will generally survive the Closing for a period of two years.

#### *Indemnification Provision*

The Share Exchange Agreement provides for rights and indemnifications as between the parties as outlined in the amended and restated Share Exchange Agreement for losses arising from certain stated events or circumstances, including if representations or warranties provided by a party in the Share Exchange Agreement proves to have been incorrect in a material respect. Such provisions provide for rights to recover losses to a maximum of \$1,000,000. The Share Exchange Agreement permits the Vendor, in lieu of payment in cash, to satisfy indemnity claims by the Corporation through a return for cancellation of an equivalent aggregate value of shares issued to him under the Share Exchange Agreement.

#### *Termination Provisions*

The Share Exchange Agreement may be terminated on the earlier of (i) the Corporation providing written notice to the Vendor that it does not intend to complete the Acquisition; and (ii) the Outside Closing Date, if the Closing does not occur by such date.

### **Articles Amendments**

#### *General*

Shareholders will be asked to consider, and if deemed advisable, to pass, with or without variation, the Articles Amendment Resolution so as to authorize the amendment of the Corporation's articles to (i) restate the rights, privileges, conditions and restrictions attaching to the Common Shares and replace them with the rights, privileges, conditions and restrictions, as set out in Schedule 1 to the Articles of Amendment; (ii) delete the Series I Preference shares of the Corporation in their entirety; (iii) create the Preferred Shares, the rights, privileges, conditions and restrictions of the Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment; (iv) create the Series A Preferred Shares, the rights, privileges, conditions and restrictions of the Series A Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment; and (v) change the name of the Corporation to "Synergex Corporation".

There are no preferred shares of the Corporation currently outstanding, and the terms for such shares as reflected in the Corporation's articles do not reflect the terms agreed upon as between the Vendor and the Corporation for purposes of the preferred shares to be issued in connection with the Acquisition. As such, the Articles Amendments will replace the currently authorized preferred shares (none of which are outstanding) with a class of preferred shares, issuable in series, which could permit the issuance of shares which have been agreed upon as between the Vendor and the Corporation (being the Series A Preferred Shares). The terms of the Common Shares as provided for in the Articles Amendment **do not** reflect any substantive change from the terms of the Common Shares as currently reflected in the Corporation's articles.

*Summary of the Attributes of the Preferred Shares and Series A Preferred Shares*

The principal attributes of the Preferred Shares would be as follows:

- (a) The directors of the Corporation may at any time and from time to time issue Preferred Shares in one or more series, having such rights, restrictions, conditions and limitations attaching thereto as shall be determined by resolution of the Board and prescribed by the Articles of Amendment, including, without limitation, any voting rights, conversion rights, rights of redemption, rights of retraction and any entitlement to dividends.
- (b) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or other distribution of the assets of the Corporation among its Shareholders for the purpose of winding-up its affairs, the Preferred Shares of each series will (i) entitle the holders thereof to preference over the Common Shares and over any other shares in the share capital stock of the Corporation ranking junior to the Preferred Shares with respect to the payment of dividends and the distribution of assets of the Corporation; and (ii) rank on a parity with the Preferred Shares of every other series with respect to priority in payment of dividends and in the distribution of assets.
- (c) The rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class may be repealed, altered, modified, amended or amplified with the approval of the holders of 66 2/3% of the votes cast at a meeting of the holders of Preferred Shares, in addition to any other consent or approval required by law.
- (d) Any consent or approval given by the holders of Preferred Shares will be deemed to have been sufficiently given if it is given in writing by the holders of all of the outstanding Preferred Shares or by a resolution passed at a meeting of holders of Preferred Shares called in accordance with the Articles of Amendment and carried by the affirmative vote of not less than 66 2/3% of the votes cast at such meeting, in addition to any other consent or approval required by law. On every poll taken at every such meeting every holder of Preferred Shares shall be entitled to one vote in respect of each Preference Share held.

The principal attributes of the Series A Preferred Shares would be as follows:

- (a) Each Series A Preferred Share would entitle the holder to receive, out of the monies of the Corporation properly applicable to the payment of dividends, when, as and if declared by the Board, a quarterly, preferential, cumulative dividend in the amount of \$0.25 multiplied by the prime lending rate of the Corporation's Canadian chartered bank plus 0.75%.
- (b) Each Series A Preferred Share would be redeemable by the Corporation at any time upon at least ten days written notice upon payment of \$1.00 together with all dividends accrued and unpaid thereon up to and including the date of redemption (the "**Redemption Amount**").
- (c) In the event of the liquidation, dissolution, winding-up of the Corporation (whether voluntary or involuntary), reduction of capital or other distribution of its assets among shareholders by way of a repayment of capital, each holder of Series A Preferred Shares would be entitled to receive, before any distribution of any part of the assets of the Corporation among the holders of any other class of shares, the Redemption Amount.

- (d) The holders of Series A Preferred Shares would be entitled to one vote for each Series A Preferred Share held by them. In the event of any consolidation or subdivision of the Common Shares, the number of votes per Series A Preferred Share would be adjusted in the manner determined by the Board, in good faith, to be appropriate in light of such consolidation or subdivision.

The complete text of the terms of the Common Shares, Preferred Shares and Series A Preferred Shares are set out in Schedule "B-2" to this Circular.

*Change of Name*

Having regard to the fact that the assets, income and operations of the Resulting Issuer are expected for the foreseeable future to be predominately related to Synergex' business, management of both the Corporation and Synergex have determined, and the Board agrees with such determination, and that the name of the Corporation should be changed to "Synergex Corporation".

**By-Law No. 3**

*General*

Shareholders will be asked to consider, and if deemed advisable, to pass, with or without amendment, a resolution approving the repeal of the current by-laws of the Corporation and confirming By-Law No. 3, a by-law relating generally to the transaction of the business and affairs of the Corporation approved by the Board on December 8, 2004. A copy of By-Law No. 3 is attached as Schedule "C-2" to this Circular. The purpose of implementing By-law No. 3 is to provide for a general by-law more consistent with current practice for Canadian public companies.

*Summary of the Amendments to the Corporation's By-Laws*

The material differences between By-Law No. 3 and the Corporation's previous general by-law are as follows:

- (a) the new by-laws provide for a quorum of two persons (rather than 20% of the outstanding Common Shares) present in person or represented by proxy entitled to vote at a meeting of the Corporation;
- (b) notice of shareholders meetings are to be sent not less than 21 nor more than 50 days before the date of the meeting (rather than not less than 10 days and not more than 50 days before a meeting), as per the requirements of the OBCA for public companies;
- (c) the number of directors is as provided in the articles of the Corporation (instead of a range specified in the by-laws); and
- (d) the authority to make banking arrangements on behalf of the Corporation is as determined by the Board from time to time.

**Approvals Required**

The completion of the Acquisition is subject to a number of conditions, including those set out above and Minority Shareholder approval. The Acquisition cannot close until the required Shareholder approval is obtained. Shareholder approval must be obtained by way of an ordinary resolution passed by a

majority of the Minority Shareholders (being a resolution passed by a simple majority vote of the Minority Shareholders represented in person or by proxy at the Meeting). The Minority Shareholders will be asked to consider and, if thought fit, approve the Acquisition Resolution, the text of which is set forth in Schedule "A" to this Circular.

To be adopted, the Articles Amendment Resolution must be approved by at least two-thirds of the votes cast at the Meeting. The Shareholders will be asked to consider and, if thought fit, approve the Articles Amendment Resolution, the text of which is set forth in Schedule "B" to this Circular.

To be adopted, the By-Law Resolution must be approved by a majority of the votes cast by the Shareholders at the Meeting. The Shareholders will be asked to consider and, if thought fit, approve the By-Law Resolution, the text of which is set forth in Schedule "C" to this Circular.

### **Accounting Matters**

The Acquisition will be accounted for as a continuity of interests of the Corporation in accordance with Canadian generally accepted accounting principles.

The continuity of interests method is being utilized due to the fact that both corporations are under common control. The proposed transaction will be a transaction between related parties. Once the transaction is completed, there will be no substantive change in ownership of the corporations. Accordingly, the proposed transaction would be recorded at carrying amounts.

It is also management's opinion that the most appropriate method of evaluating management's performance, by the shareholders, on a post transaction basis, is using the continuity of interests method because this method produces prior years' comparative numbers as if the two entities had been one since inception, which allows a reader the most appropriate historical comparison, since management is the same for both entities before and after the transaction.

Please refer to the unaudited *pro forma* consolidated financial statements of the Corporation (assuming completion of the Acquisition) set forth in Schedule "I" to this Circular. The expenses of the Acquisition, including legal, accounting and valuation fees and costs of printing, estimated at approximately \$115,000, have been included in such unaudited *pro forma* consolidated financial statements of the Corporation.

### **Additional Information**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Corporation's comparative financial statements and Management Discussion and Analysis for the year ended May 31, 2004. Copies of the Corporation's financial statements and Management Discussion and Analysis may be obtained through [www.sedar.com](http://www.sedar.com) or upon written request to John Smith at 6225 Kenway Drive, Mississauga, Ontario L5T 2L3.

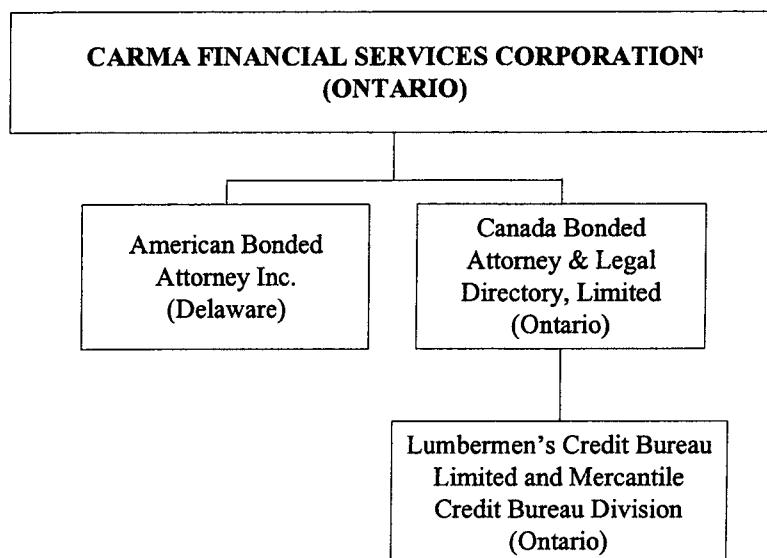
## **PART 3 – INFORMATION REGARDING THE CORPORATION, SYNERGEX AND THE RESULTING ISSUER**

### **INFORMATION REGARDING THE CORPORATION**

#### **Name and Incorporation**

The Corporation was incorporated under the OBCA as “Carma Financial Corporation” on April 23, 1997. Its articles of incorporation were subsequently amended in order to change the Corporation’s name to “Carma Financial Services Corporation”. The Corporation’s principal and head office is located at 6225 Kenway Drive, Mississauga, Ontario L5T 2L3.

#### **Intercorporate Relationships**



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#### Note(s)

1 The Corporation has a 100% direct or indirect ownership in each of the Subsidiaries shown in the chart above.

#### **General Development of the Business, Significant Acquisitions and Significant Dispositions**

The Corporation has a longstanding history. It is comprised of (i) Canada Bonded Attorney & Legal Directory, Limited, founded in 1911, (ii) American Bonded Attorney Inc., established in 1990, and (iii) Lumbermen's Credit Bureau Limited established in 1914 and its Mercantile Credit Bureau established in 1997. The Corporation became a public company in June 1999. The Corporation and its Subsidiaries are primarily engaged in the business of accounts receivable management, including third party debt recovery and commercial credit evaluation.

The Corporation acquired the following operating companies on the following dates:

- September 1997 – Canada Bonded Attorney & Legal Directory, Limited (“CBA”)
- September 1997 – Lumbermen's Credit Bureau Limited
- September 1997 – Mercantile Credit Bureau
- September 1997 – Careers in Finance Ltd.
- January 2000 – 2968-9924 Quebec Inc. (operating as Le Groupe Fichier Central)
- March 2000 – Interactive Recovery Services Ltd. (“IRS”) and its subsidiaries

August 2000 – Dunning and Nearbank Corporation  
June 2004 – Legal Credit Recovery Corp.

In July 2001, IRS was amalgamated into CBA to become the consumer division of CBA.

On May 13, 2002, the Corporation completed an arms' length transaction for the sale of 100% of its consumer collection division for an aggregate sale price of \$1,060,000.

On June 16, 2004, the Corporation completed an arm's length transaction for the purchase of 100% of the shares of Legal Credit Recovery Corp at a price of \$255,000.

The Corporation's focus is directed at utilizing its infrastructure to allow customers to subscribe to services for the management of their accounts receivable functions through their selling cycle. Services include credit assessment products utilizing the Corporation's online credit monitoring products, real time credit reports, credit groups, and online database searches as well as debt recovery services management through the outsourcing of accounts receivable management on a white label basis, demand letter programs, third party debt recovery, and litigation services. The Corporation operates its business through the two workgroups described below.

### **Credit Reporting and Monitoring Workgroup**

The Corporation's credit reporting ("Credit Reporting") workgroup (operating through Lumbermen's Credit Bureau Limited and its Mercantile Credit Bureau division, both acquired by the Corporation in September 1997) offers real time credit verification, which helps customers improve receivables and balance sheet management through informed credit decisions. The Corporation targets the construction, computer, transportation, food, and drug industries. Information collected in real time and through the database allows the Corporation to provide a comprehensive range of services.

Credit products and services include credit investigation services, real time commercial credit reporting, online credit access to payment data through Credit Window, project reports, corporate searches, U.S. business reports, principal reports, insolvency searches, weekly and online lien information, registrations under the *Personal Property Security Act* (Ontario) (the "PPSA"), PPSA searches and a credit managers' handbook. The Credit Reporting group facilitates their clients' credit application review process by providing the latest real time quality information, thereby significantly reducing credit application fraud often suffered by clients relying on database credit reporting companies whose information is often dated. Credit Window and E-Groups are the newest service offerings. Credit Window provides access to real time payment data about a client's customers. E-Groups will automate credit groups and provide a new generation of instant credit reporting resources to clients.

### **Receivables Management and Debt Recovery Workgroup**

The Corporation's receivables management and debt recovery ("Debt Recovery") workgroup operates under CBA and American Bonded Attorney Inc. ("ABA"). CBA and ABA were acquired by the Corporation in September 1997. CBA and ABA have been in operation since 1911 and 1990, respectively.

The Debt Recovery workgroup is a leading commercial debt recovery product and services group providing clients with the resources to manage delinquent accounts receivable. The Debt Recovery workgroup has focussed its attention on penetrating industry segments in conjunction with the Credit Reporting workgroup, notably the computer, transportation, food and drug distribution and construction industries.

This workgroup generates revenue from the sale of its highly regarded legal demand letters and from the direct placement of unpaid claims. Legal demand letters are sold on an annual contract basis, paid in advance, with the size of the contract being determined by the client's projected usage requirements. Contracts are signed with all clients for both letters, outsourcing, and debt recovery. Debtors who do not pay within ten days of the letter being sent out are automatically placed for 3<sup>rd</sup> party collection. There are many claims that are placed directly for collection by clients who have decided not to use a letter program.

The Debt Recovery workgroup provides a range of accounts receivable management services to its clients. Although most of the Corporation's accounts receivable management services to date have focused on recovery of traditional delinquent accounts, the Corporation does engage in the recovery of current receivables and early stage cure programs. The Corporation generates its revenue from the recovery of delinquent accounts on either a contingency fee basis or from fixed fees. Contingency fees are earned as a percentage of the amount recovered on behalf of the client. Fee levels range based on the status of accounts under management, with fixed flat rate fees for outsourcing programs to higher percentage based contingency fees for seriously delinquent accounts.

Recovery activities typically include the following:

- (a) *Receivable Management Programs:* The Corporation's standard approach, which may be tailored to the specialized requirements of its clients, defines and controls the steps that will be undertaken by the Corporation on behalf of the client and the manner in which data will be reported to the client. Through this systemized approach, the Corporation ensures uniform, cost effective performance.
- (b) *Outsourcing Services:* Management of accounts as they become payable, with the objective to ensure they do not become collection problems, and the identification of problematic accounts that arise at the earliest possible stage.
- (c) *Location Services and Skip Tracing:* In cases where the debtor's address, location of assets, or current employment is unknown, the Corporation systematically searches a number of databases and sources in order to obtain the required information to find the debtor. Once the Corporation has located the debtor, the notification process can begin.
- (d) *Demand Letter and Account Notification Programs:* The Corporation initiates the recovery process by forwarding an initial letter that is designed to seek payment of the amount due or open a dialogue with debtors who cannot afford to pay at the current time. The Corporation also provides its letters as a separate service to clients as a way of improving the efficiency of their own in-house collection activity.
- (e) *Litigation Management:* The Debt Recovery workgroup co-ordinates litigation through its in-house paralegal team in court, or undertaken by a nationwide network of lawyers that the Corporation utilizes on a routine basis. The Corporation's litigation department staff manages the Corporation's lawyer relationships and facilitate the transfer of all necessary documentation.
- (f) *Payment Process:* After the Corporation receives payment from the debtor, it either remits the amount received net of its fee to the client or remits the entire amount received to the client and bills the client for its services.

- (g) *Activity Reports:* Clients are provided with a system generated set of standardized or customized reports that fully describe all account activity and current status. These reports are typically generated monthly, however the information included in the report and the frequency with which the reports are generated can be modified to meet the needs of the client.
- (h) *Quality Tracking:* The Corporation emphasizes quality control throughout all phases of the accounts receivable management process. Some clients may specify an enhanced level of supervisory review and others may request customized quality reports. Large national credit grantors will typically have exacting performance standards which require sophisticated capabilities such as documented complaint tracking and specialized software to track quality metrics to facilitate the comparison of the Corporation's performance to that of its peers.

### **Business Strategy**

The Corporation's Credit Reporting business differentiates itself from database credit reporting agencies by offering current real time credit information to reduce the risk clients face using database reports that may have dated information. The Debt Recovery business leverages its well-known name, and the information database and resources of the credit reporting business, and its litigation services to deliver superior recovery rates to clients. To achieve this goal, the Corporation's business strategy is based on the following key elements:

- (a) *Utilization of Technology and Management Infrastructure to Improve Productivity:* Efficient use of technology and intensive management of human resources enables the Corporation to provide cost-effective client solutions and perform large scale programs in both accounts receivables management and credit information. The Corporation continues to implement new technologies designed to improve efficiency and client services, which are expected to contribute to increased profit margins for the services currently offered and the new product lines to be offered in the future.
- (b) *Commitment to Client Service:* The Corporation is committed to providing superior service to its clients. The Corporation works closely with its clients to identify particular needs, and design and implement customized solutions, developing new products within the accounts receivable management, collection, and credit bureau industry.
- (c) *Target Construction Industry and Multinational Clients:* The Corporation continues to be a leading supplier of credit information to the construction industry in Canada. While the Corporation's traditional clients have provided a stable revenue base, the Corporation believes that larger non-construction industry clients offer significant cross-selling opportunities. As a result, the Corporation is accelerating efforts to acquire additional key accounts within the financial services sector.
- (d) *Pursue Strategic Alliances/Acquisitions:* The Corporation intends to take advantage of the fragmented nature of the industry, by pursuing strategic acquisitions and alliances. Through selected acquisitions, the Corporation intends to serve new markets or industries, expand its presence in existing markets and add complementary service applications. The Corporation intends to target acquisitions that position the Corporation for further profitable revenue growth and that possess synergies both in efficiencies and product lines. This acquisition strategy is, of course, subject to the Corporation's financial abilities from time to time.

- (e) *Building Industry Niches:* The Corporation's construction industry niche demonstrates that specific industry focus can generate growth opportunities. We plan to build specific expertise and data focused on specific industry groups to become leading providers to those industries.
- (f) *New Product Development:* To broaden the base of clients and services available to existing clients, the Corporation plans to offer an increased paralegal services program and investigative services for human resource background confirmations.

## **Competition**

The accounts receivable management and credit collections industries are highly fragmented and competitive. Most companies in Canada have regional representation, limited technology, and marginal management and resources. Based upon revenues, management believes that the Corporation is among the top 15 accounts receivable management and credit collections companies in Canada.

The Canadian market for credit and debt recovery services is largely made up of a number of small players representing approximately 50% of the total market, including approximately 300 collection companies with sales under \$2 million. In Ontario, the Corporation's principal operating region, there are 144 licensed collection companies including approximately 16 very large agencies who focus primarily on consumer accounts. The commercial credit reporting industry in Canada has two large competitors and many smaller organizations with the Corporation's business positioned in the middle of this gap. The Corporation believes that it is uniquely positioned as one of the few companies in Canada that can provide a completely integrated solution in all markets across Canada.

Management is not aware of any comparable publicly listed companies in Canada and limited market research available regarding the industry in Canada. The following overview of the U.S. industry is (other than in respect of debt collection for health care fee receivables which would not apply) representative of the Canadian marketplace which follows the U.S. market in developments and trends, albeit usually with some lag time.

In the U.S., about 1,600 credit reporting agencies and 5,500 credit collections agencies generate annual revenues of \$10 billion. Large national collection agencies like Outsourcing Solutions and NCO Group have annual revenues of US\$500 million each, but the typical collection agency has annual revenues of less than US\$1 million. The typical credit reporting agency has annual revenues close to US\$3 million. The largest 10 credit collections companies hold only about 20% of the market. Credit reporting and collections agencies operate at opposite ends of an industry that supports over US\$6.5 trillion in consumer debt (including about US\$4 trillion in mortgages), about US\$1 trillion in commercial bank loans, and approximately US\$1.5 trillion in commercial accounts receivable.

Credit reports are used by businesses to determine the creditworthiness of individuals and businesses wanting to buy goods and services on credit, including credit cards, auto and bank loans, mortgages, and business accounts. Collection agencies attempt to recover delinquent loans from individuals and businesses. Some large companies, such as Equifax Canada Inc., do both credit reporting and collections, but most companies participate in only one segment of the industry.

The credit reporting side of the industry consists of the D&B Companies ("D&B") (the main source of commercial credit information), three "national repositories" of consumer credit information (Trans Union, Equifax, and Experian, each of which maintains 190 million credit files), about 1,300 consumer reporting agencies and 300 commercial reporting agencies. D&B and the three national consumer credit companies collect credit information from sources such as commercial companies, banks,

credit card companies, and mortgage and finance companies. The national companies sell information directly to large users such as Fortune 500 companies and big financial institutions, while reporting agencies act essentially as retailers, buying information from national companies and reselling it to small users. All reporting agencies have an affiliation with one or more of the national credit companies.

A typical consumer credit report shows current and historical status of credit card and auto loan accounts, bank loans and mortgages, public record information about relevant court proceedings such as liens, bankruptcies and judgments, and lists recent credit inquiries. To keep track of the large stream of credit information, reporting agencies rely heavily on computer technology.

The collections side (also called “receivables management”) deals mainly with the 2% of mortgage debt and 4.5% of credit card debt that is typically delinquent at any one time, as well as collections for child support, returned cheques, student loans, and uninsured healthcare costs. 80% of business comes from the banking, utilities, telecommunications and healthcare industries. Collections consist largely of writing letters and making phone calls, and finding the addresses and phone numbers of debtors who have moved, called “skip tracing”. The three main types of collection services that agencies offer are contingency fee collections, portfolio purchasing, and receivables outsourcing. Contingency fee collections, which are the mainstay of the industry, pay agencies a percentage of all funds recovered. The typical range is 15-35% but can go as high as 50% for old loans or those that have already been extensively serviced. The average fee for the healthcare industry is 15%. Some agencies have sufficient capital resources to engage in portfolio purchasing, which entails buying an entire portfolio of nonperforming loans and keeping all of the collected funds. Because collection agencies are in the receivables business, many companies use them for complete receivables outsourcing, and pay a fee to have all their receivables functions handled. Collection agencies are strictly limited in terms of the methods they can use to persuade debtors to pay back their loans. One of the most powerful tools is the concern that the bad debt may be reported to the national credit bureaus, where it will remain for up to seven years. Quick response is important in debt collection. The probability of collecting a delinquent account drops with the length of delinquency. Experts estimate that after only 3 months, the probability of collection drops to around 73%, after 6 months, to only 44%, and after a year, to around 25%.

## Trends

### *Economy Affects Receivables' Recovery Rates, Credit Reporting Volume*

Collection agencies benefit from downturns in the economy, since delinquent account placement is countercyclical. However, collection agencies have a greater risk of mis-pricing receivables during a recession. Agencies buy delinquent receivables with the expectation of a particular success rate in collecting money, based on past performance. In a period of economic prosperity, the recovery rate could be higher than during an economic turndown. Credit reporting, on the other hand, is driven by the need for credit and financing, factors influenced by employment rates and interest rate activity. For example, most mortgage refinancings require a credit report, and during the past 20 years, mortgage refinancing volume has come in surges.

### *Bankruptcies, Delinquencies*

Bankruptcies, which can keep credit collectors from recovering bad debt, inhibit collection agency activity but increase credit reporting activity. Delinquencies in accounts potentially indicate the level of need for collection services to recover the delinquent amounts.

### *Commercial Receivables' Recovery Rates, and Bankruptcies and Commercial Credit Reporting Volume*

Commercial receivables' trends follow consumer patterns very closely with increasing delinquent account placements during economic downturns. As a downturn continues for some period and the number of business filing for bankruptcy increases the quality and ability to successfully collect accounts worsens. Stable economic periods generate lower placement volumes but higher quality more collectable placements. Commercial collections represent only a small segment of the collection marketplace volume.

### *Commercial Credit Reporting Volume*

Credit reporting volume also follows consumer trends very closely. In periods of economic growth credit reporting demand will increase as suppliers manage growing revenues and receivables exposure to their customers. Growth in new accounts and increasing exposure to existing accounts create demand for credit information to evaluate the risk of offering payment terms, and credit limits. The need for more sophisticated and detailed credit reports continues throughout an economic growth period.

### *Credit Card Offers Increase*

An improving economy and continued low interest rates are allowing credit card companies to mail more offers to consumers, creating the opportunity for more consumer credit and potential bad debt.

### *Industry Moves Offshore*

To cut operational costs, many debt collection companies are following other industries and beginning to transfer some jobs offshore. Industry labour groups complain that moving jobs offshore is being used to weaken labour unions and workers' bargaining position. Collection agencies argue that using offshore workers will allow them to service more accounts and create more jobs. In addition, foreign workers will likely be effective only for customer service and calls on recent defaults, while longer-standing debts requiring intensive service and workout solutions would be handled by U.S. workers.

### *Demographic Shift in Bankruptcy*

A growing number of baby boomers are becoming financially distressed and providing a target for credit collectors. The Consumer Bankruptcy Project reports that consumers 45 to 54 are now the most likely group to file for bankruptcy. The trend is being driven by the dynamics of the job market, rising medical costs, expenses from children born later, and a need to care for aging parents. This age group has also been the victim of years of aggressive credit card marketing practices that have made getting into debt easier.

## **Selected Consolidated Financial Information**

The following tables set out selected consolidated financial information for the periods indicated and should be considered in conjunction with the more complete information contained in the consolidated financial statements of the Corporation attached as Schedule "G" to this Circular.

The following is a summary of certain selected unaudited consolidated financial information of the Corporation for each of the last eight fiscal quarters ended May 31, 2004.

	Three Months Ended			
	August 31, 2003	November 30, 2003	February 29, 2004	May 31, 2004
Total Revenues .....	\$1,322,276	\$1,509,573	\$1,459,928	\$1,496,236
Total income (loss) from continuing operations.....	\$(371,303)	\$30,698	\$12,046	\$(50,150)
Total income (loss) per share from continuing operations				
- Basic .....	\$(0.02)	\$0.00	\$0.00	\$0.00
- Diluted.....	N/A	N/A	N/A	N/A
Total net income (loss) .....	\$(371,303)	\$30,698	\$12,046	\$(43,098)
Net Income (loss) per share				
- Basic .....	\$(0.02)	\$0.00	\$0.00	\$0.00
- Diluted.....	N/A	N/A	N/A	N/A
	Three Months Ended			
	August 31, 2002	November 30, 2002	February 28, 2003	May 31, 2003
Total Revenues .....	\$1,692,269	\$1,568,276	\$1,483,131	\$1,473,169
Total income (loss) from continuing operations.....	\$52,791	\$23,943	\$(327,011)	\$(953,407)
Total income (loss) per share from continuing operations				
- Basic .....	\$0.00	\$0.00	\$(0.03)	\$(0.07)
- Diluted.....	N/A	N/A	N/A	N/A
Total net income (loss) .....	\$52,791	\$37,986	\$(407,861)	\$(983,215)
Net Income (loss) per share				
- Basic .....	\$0.00	\$0.00	\$(0.03)	\$(0.07)
- Diluted.....	N/A	N/A	N/A	N/A

The following is a summary of certain consolidated annual financial information of the Corporation for each of the last three years:

	Year Ended May 31,		
	2004	2003	2002
Total Revenues .....	\$5,788,013	\$6,217,295	\$9,479,882
Income (loss) from continuing operations.....	\$(378,709)	\$(1,203,684)	\$(394,075)
Net income (loss) .....	\$(371,657)	\$(1,300,299)	\$(946,563)
Earning (loss) per Common Share			
- Basic.....	\$(0.01)	\$(0.08)	\$(0.07)
- Diluted .....	N/A	N/A	N/A
Total Assets .....	\$4,853,776	\$4,270,414	\$3,780,542
Total long term financial liabilities .....	\$224,273	\$852,747	\$492,949
Working Capital .....	\$576,684	\$(616,399)	\$(2,037,863)

#### Management Discussion and Analysis of Financial Condition and Operating Results

The management discussion and analysis of financial condition of the Corporation for the annual and interim financial statements included in this Circular are attached as Schedule "J" hereto.

## **Dividend Policy**

Subject to the requirements of the OBCA, there are no restrictions which could prevent the Corporation from paying dividends. The Corporation has not paid dividends since the commencement of its current business operations. The Corporation intends to reinvest any earnings to fund the development and growth of its business and does not expect to pay any dividends on the common shares within the foreseeable future. Any future payments of dividends will depend upon the financial condition, capital requirements and earnings of the Corporation, as well as other factors the Board may consider relevant.

## **Authorized and Issued Share Capital**

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. There are currently 58,220,452 Common Shares outstanding. The holders of Common Shares are entitled to one vote per share at all meetings of the Corporation's shareholders. Holders of Common Shares are entitled to receive dividends as and when declared by the directors and to receive a *pro rata* share of the assets of the Corporation available for distribution to the holders of Common Shares in the event of liquidation, dissolution or winding-up of the Corporation. All rank *pari passu* with each other, as to all benefits which might accrue to the holders of Common Shares.

The Articles Amendments, which are described in Part 2 of the Circular (please see "Special Matters – Articles Amendments") will result in the restatement of the attributes of the Common Shares, and the creation of Preferred Shares and Series A Preferred Shares.

## **Consolidated Capitalization**

The following table sets forth the consolidated share and loan capital of the Corporation as at the dates specified therein. The table should be read in conjunction with, and is qualified in its entirety by the financial statements attached hereto as Schedule "G":

Description of Class	Authorized	Amount Outstanding as at January 17, 2005
Common Shares	Unlimited	58,220,452
Options	—	536,100
Long-term debt	—	112,000

## **Options and Other Rights to Purchase Common Shares**

The Corporation maintains the Stock Option Plan to encourage the ownership of Common Shares by directors, officers, key employees and consultants of the Corporation. As at the date hereof, options to acquire up to 536,100 Common Shares are outstanding. Please see "General Proxy Information and Annual Meeting Matters – Stock Option Plan"

## Prior Sales

Date	Number of Issued Securities	Price per Security	Total Consideration
From January 1, 2004 to January 17, 2005	21,815,833 648,000 85,000 53,400 50,000 42,500 220,000	\$0.10 \$0.30 \$0.58 \$0.17 \$0.20 \$0.10 \$0.10	2,181,588 194,400 49,300 37,380 10,000 4,250 22,000
Issued and Outstanding as of January 17, 2005	58,220,452	—	—

## Trading History

The Common Shares are listed and posted for trading on the TSXV under the symbol "CFS". The following table sets forth the high and low market prices of the Common Shares on the TSXV for the periods indicated.

Year		High (\$)	Low (\$)	Volume (No. of shares)
2003	First Quarter.....	0.14	0.06	569,000
	Second Quarter .....	0.70	0.12	4,273,841
	Third Quarter .....	0.69	0.50	1,849,281
	Fourth Quarter .....	0.92	0.54	5,148,200
2004	First Quarter.....	0.95	0.62	4,127,000
	Second Quarter .....	0.84	0.63	2,061,132
	Third Quarter .....	0.72	0.55	1,777,487
	Fourth Quarter .....	0.69	0.60	585,850
	October .....	0.69	0.60	585,850
	November .....	—	—	—
2005	December.....	—	—	—
	January.....	—	—	—

### Note(s):

1 Trading of the Common Shares was halted on October 25, 2004 in accordance with the rules of the TSXV.

On October 25, 2004, the closing price for the Common Shares on the TSXV was \$0.62 per share.

## Directors and Officers

Please see "General Proxy and Annual Meeting Matters – Election of Directors".

## Other Reporting Issuers

The directors, officers and promoters of the Corporation who have been directors, officers and promoters of other reporting issuers within the five years prior to the date of this Circular are:

Name of Director, Officer or Promoter	Name of Reporting Issuer	Position	Term	
			From	To
John L. Smith	Laurentian Bank of Canada	Senior Vice President	August 1990	September 2002

### **Corporate Cease Trade Orders or Bankruptcies**

No director or officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, is, or within the five years before the date of this Circular has been, a director or officer of any other issuer that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Penalties or Sanctions**

No current director, officer or principal shareholder of the Corporation has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision in respect to the Corporation.

### **Individual Bankruptcies**

No current director, officer, principal shareholder of the Corporation or personal holding company of any such persons has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement, or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

### **Conflicts of Interest**

The directors of the Corporation are required by law to act honestly and in good faith with a view to the best interest of the Corporation and to disclose any interests which they may have in any project or opportunity of the Corporation. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Corporation will participate in any project or opportunity, that director will primarily consider the degree of risk to which the Corporation may be exposed and its financial position at that time.

To the best of the Corporation's knowledge, save as described herein, there are no known existing or potential conflicts of interest among the Corporation, its promoters, directors, officers or other members of management of the Corporation as a result of their outside business interests except that certain of the directors, officers, promoters and other members of management serve as directors, officers, promoters and members of management of other companies, and therefore it is possible that a conflict

may arise between their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Corporation are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Corporation will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. Such directors or officers in accordance with the OBCA will disclose all such conflicts and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. Please see "General Proxy Information and Annual Meeting Matters – Executive Compensation and Interest of Insiders in Material Transactions".

## Risk Factors

Any investment in the securities of the Corporation must be considered speculative, generally, because of the nature of its business and the general stage of its development. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors in evaluating the Acquisition, the business of the Corporation and the going-forward business of the Resulting Issuer.

### *Payment of Dividends*

Since the commencement of its current business, the Corporation has not paid any dividends and does not anticipate paying any dividends on the Common Shares for the foreseeable future. There can be no assurance that any dividends will be paid following the acquisition.

### *Possible Volatility of Stock Price*

The market price of the Common Shares has been and may be after completion of the Acquisition subject to wide fluctuations in response to factors such as actual or anticipated variations in the Corporation's consolidated results of operations, changes in financial estimates by securities analysts, general market considerations and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Common Shares.

### *Economic Conditions*

Unfavourable economic conditions may negatively impact new business origination volume and the credit quality of any loans made by the Corporation. Unfavourable economic conditions could increase the Corporation's financing costs, decrease net income, limit access to capital markets and negatively impact any credit facilities extended to the Corporation.

The Corporation's business has competitors in both its credit reporting and debt recovery businesses. Commercial credit reporting has two larger national competitors and numerous much smaller competitors with the Corporation's business being in between these two ranges. The debt recovery industry consists of some very large consumer focused agencies, and a multitude of very small agencies. The Corporation's commercial debt recovery business would rank in the top 10 commercial collections business in Canada, whereas its consumer group is in a start-up phase and is very small relative to certain of its competitors.

Both industries have large gaps between the few big competitors and the large number of small competitors.

#### *Risks Associated with Expansion Activities*

The Corporation has significantly refocused its business operations in the context of its assets, integrated services, revenues and employees. To successfully implement its corporate strategy, the Corporation must be able to successfully integrate new and recently acquired assets into an expanded line of business operations. The consolidation and integration of the functions, systems and procedures related to such acquired assets with the Corporation's corporate strategy presents a significant management challenge and the failure to achieve such integration could have a material adverse affect on the results of operations and financial condition of the Corporation. Although the Corporation believes it can successfully integrate its acquisition activities into its operations, there can be no assurance that the Corporation will achieve improved operating results.

#### *Integration of Acquired Businesses and Growth*

Management believes that the Corporation is well positioned for future profitability. As part of its long-term strategy, the Corporation intends to acquire complementary businesses pursuant to acquisition transactions that are economically and strategically justified. An acquisition in one of the Corporation's segments cannot be made without a view to the impact on the other segments. However, there can be no assurance that the Corporation will be able to identify attractive acquisition candidates in the future or that it will succeed in effectively managing the integration of acquired businesses. If the expected synergies from those transactions do not materialize or there is a failure to implement the acquisition strategy or to successfully integrate acquired businesses, that could be a material adverse effect on the Corporation's business, financial condition and results of operations. Management intends to approach acquisitions and internal growth in a disciplined manner and to attempt to grow its business segments that can be facilitated within its existing facilities.

The Corporation and Synergex are already in close proximity and will evolve to share resources over time with only limited challenges.

#### *Dependence on Key Personnel*

The success of the Corporation is dependant on the abilities, experience and efforts of a number of members of senior management. The experience of these individuals will be an important factor contributing to the Corporation's continued success and growth. While the Corporation has entered into employment agreements with certain members of its senior management, should any of these persons be unable or unwilling to continue his or her employment with the Corporation, the loss of one or more of these individuals could have a short-term adverse effect on the Corporation's operations and business prospects. The Corporation does not carry "Key Man" insurance policies on any of its officers, directors, or employees.

#### *Seasonality*

Although the Corporation's businesses are diversified across various product lines and are carried on with a diverse variety of customers, portions of its business and that of some of its customers may be subject to seasonality. The Corporation's results of operations may vary as a result of such seasonality, however such seasonality is expected to have a diminishing effect as a result of the Corporation's ongoing diversification.

### *Insurance Limits*

While management believes that the Corporation's insurance coverage addresses all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent owner/operator of similar business and facilities and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis or at current premium levels, that all events that could give rise to a loss or liability are insurable, nor that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Corporation.

### **Legal Proceedings**

The Corporation is a party to three claims which, cumulatively, amount to less than \$23,000, and is not aware of any other proceedings that are contemplated.

### **Interest of Management and Others in Material Transactions**

Please see "General Proxy Information and Annual Meeting Matters – Interest of Insiders in Material Transactions".

### **Auditors**

The Auditors of the Corporation are BDO Dunwoody LLP, 60 Columbia Way, Suite 400, Markham, Ontario, L3R 0C9.

### **Registrar and Transfer Agent**

The registrar and transfer agent for the Common Shares is Equity Transfer Services Inc. and its principal office is at 120 Adelaide Street West, Suite 240, Richmond – Adelaide Centre, Toronto, Ontario, Canada, M5H 4C3.

### **Material Contracts**

Other than as provided elsewhere herein, all agreements or contracts that the Corporation has entered into within the past two years are in the ordinary course of business.

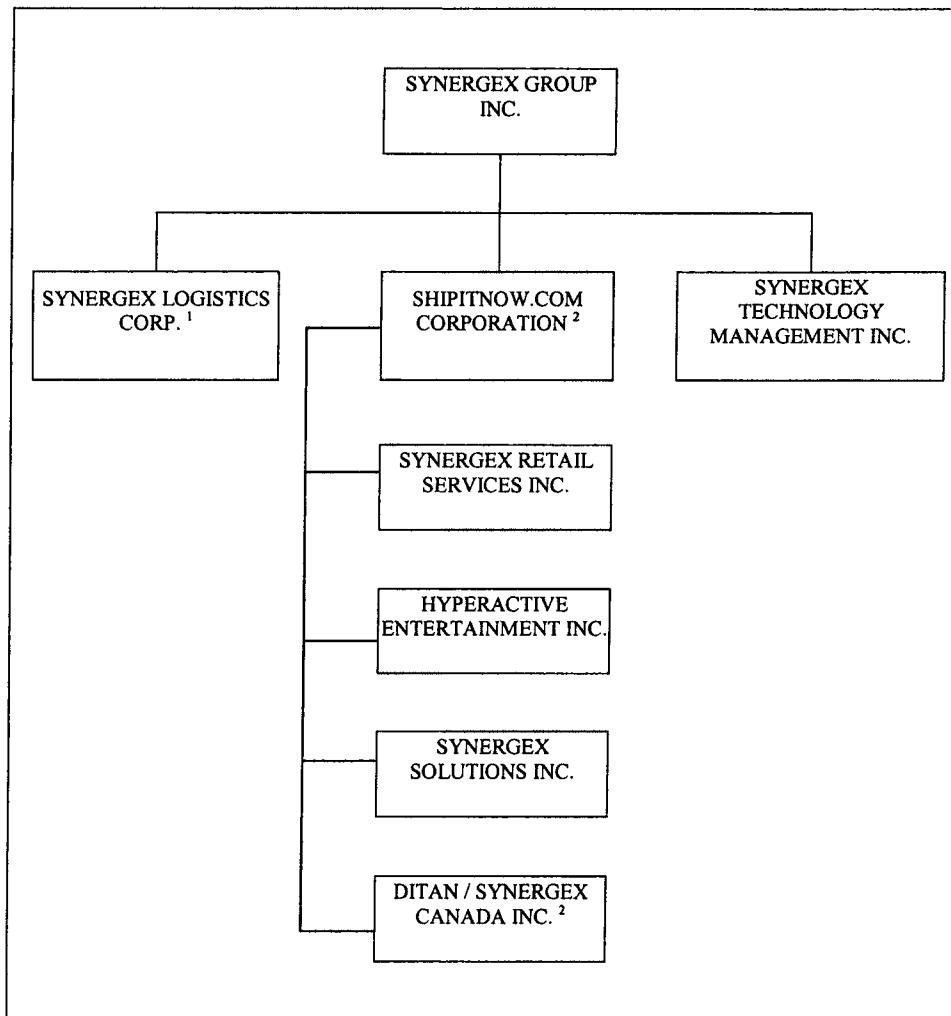
## INFORMATION REGARDING SYNERGEX

### Name and Incorporation

Synergex was incorporated on December 30, 1996 under the OBCA as "1216213 Ontario Inc." Articles of Amendment were filed on November 13, 2001 whereby Synergex' name was changed to "Synergex Group Inc." Following the completion of the Acquisition, Synergex will be a wholly-owned subsidiary of the Resulting Issuer. Synergex' head office is located at 6175 Kenway Drive, Mississauga, Ontario.

### Intercorporate Relationships

All subsidiaries listed below are wholly-owned by Synergex and are incorporated in Ontario unless otherwise noted.



#### Note(s)

1 Matthew Reiter has a 15% interest in Synergex Logistics Corp.

2 Incorporated under the *Canada Business Corporations Act*.

## **Description and General Development of the Business**

From a customer point of view, the Synergex organization consists of four functional “front ends”, which (a) resolve product purchasing and payment resolution for manufacturers, often in a foreign currency, (b) provide physical processing and order processing requirements for purchasers of those products, (c) deploy technology within a variety of corporate environments, and (d) manage the digital art, bilingualization, and printing functions necessary to support the sale of branded products. Each workgroup within Synergex was created as a result of a customer request for a solution to address a fundamental process.

A single financial base, administrative infrastructure, management team, and technology platform bind together each of these workgroups. Accordingly, the Synergex business model is to develop profitable revenue streams through cross selling among workgroups, as well as sharing of business practices.

Synergex, as a new generation organization, is reforming the delivery of business services that currently are structured as inventory financing, distribution, factoring, staffing, and technology procurement. Synergex does this through administration and coordination of the functions required to acquire product from manufacturers. In addition to facilitating co-administration of pricing and inventory management between manufacturers and buyers, Synergex ultimately directs payment for those products back to the manufacturer while minimizing inventory and credit risks to Synergex. Accordingly, Synergex offers clients a menu of services, so that its customers can engage it to be a piece of the larger puzzle, or to comprehensively serve the Canadian market space.

Generally, the existing competitors for services offered by Synergex are highly specialized, and the industries in which it competes are highly fragmented. Synergex’ competencies create an integrated set of solutions, and Synergex’ management believes that there are multiple opportunities available to develop its business.

Synergex intends to continue the development of its “Corporate Concept”, which is rooted in resolving payment resolution, logistics and distribution services, and in using technology to be a new type of organization that can take the most important assets and liabilities of a client’s balance sheet and provide services to manage them. This involves extending Synergex’ involvement with customers back into their technology platform, and forward into support of their sales and purchasing cycles.

Synergex’ management plans to continue to broaden its technology platform and the suite of business services it offers so that the organization can deliver more services to its customers in a manner that builds on the organization’s deep knowledge about those customers. In addition, Synergex intends to continue to enhance, through strategic acquisitions or otherwise, its administrative processes and technology base to continue to make each workgroup not only more effective for the customer and efficient in cost management, but also to strengthen the essential element that unifies its suite of services. It is also anticipated that Synergex will bring more branded product lines and a larger number of value-added services to accelerate the development of its organization.

Origins of Synergex’ business (and its predecessor companies) began operating approximately 17 years ago. Today, Synergex’ Commercial Gateway supply chain management business includes: third-party logistics services (wherein Synergex does not take title to goods of its clients and Synergex receives a fee for contracted services from operations located in Toronto and Montreal) and, building on its strengths in third-party logistics, a layer of value-added commercial services through innovative adjustments to the traditional first-party distributor business model. The Commercial Gateway evolved approximately six years ago when Synergex became the commercial gateway to Canadian retailers for a

large manufacture of computer entertainment products. This model is most effective where there is a non-resident manufacturer of high value merchandise that enjoys strong brand and product awareness.

### **The Synergex Commercial Gateway**

The Commercial Gateway operations began in October 1998 and historically has been conducted through Hyperactive Entertainment Inc. and Synergex Retail Services Inc. This business continues to increase rapidly and now accounts for approximately one-half of Synergex' gross margin dollars earned.

In 2003, Ditan/Synergex Canada Inc. ("Ditan/Synergex") was established as a wholly owned subsidiary of Synergex to market commercial gateway services in an exclusive marketing arrangement with Ditan Corporation. Ditan Corporation is a large, privately-owned, American third party logistics company serving the computer entertainment and other industries. Ditan/Synergex acquired several new engagements from global software publishers in 2004 to increase the volume and profitability of their products marketed in Canada. In this respect, Ditan/Synergex disintermediates the traditional distributor relationships between the manufacturer and its major customers. Ditan/Synergex is a facilitator of clients' business objectives as it provides services related to billing and cash collection, supply chain management, administration of debit reconciliation with customers, tax compliance, foreign currency risk management, and other issues. Ditan/Synergex started operations in August 2004.

Synergex Solutions Inc. ("Solutions") was established to distribute products outside the computer entertainment field. Solutions began operations in May of 2003 and currently has one customer in the auto accessories business and provides services under the same model as for customers of the computer entertainment business.

The Creative Services workgroup was started in October of 2003. This workgroup within Hyperactive Entertainment was established to translate text, rework digital art, print, and manufacture customer product manuals into the French language to facilitate sales in Quebec. There are currently five major Creative Services customers.

### **Synergex Technology Management**

Synergex Technology Management Inc. ("Synergex Technology Management") was established in May 2004 to provide consulting and Information Technology (IT) services. Synergex Technology Management delivers "built in" proven solutions and provides a mature consulting perspective. The team consists of staff and managers with many years of business expertise, with three specific activities: procurement, professional services and solution integration. Synergex Technology Management offers to its clients:

- (i) Enterprise Services - Security, data management, server consolidation, project management;
- (ii) Products - Hardware and software fulfillment;
- (iii) Staff Augmentation - Rent-A-Tech and recruitment;
- (iv) Warranty Services - IBM and HPQ certified warranty services-on-site and depot, Dell certified-on-site;

- (v) Client Site Services - IMAC (installations, moves, adds & changes), on-site system deployment, traditional break/fix time and materials), cabling services-single/multiple drop, certified, voice and data capabilities; and
- (vi) Solutions - Network audit, orchestration and provisioning; work-order request management.

Synergex Technology Management offers a full range of technology products and services that make it easier for customers to do business. The result is a reliable source to help customers with complex computing challenges.

### Trends

Management of Synergex is not aware of any trends, commitments, events or uncertainties, other than general trends in economies and commercial spending, that are reasonably expected to have a material effect on Synergex' business, financial condition or results of operations.

### Selected Consolidated Financial Information

The following table sets out a summary of financial operations for Synergex for the financial years ended December 31, 2003 and 2002 and for the ten months ended October 31, 2004.

	Ten Month Period Ended October 31, 2004 (Unaudited)	Year Ended December 31, 2003 (Audited)	Year Ended December 31, 2002 (Audited)
Sales.....	73,128,050	97,194,437	126,552,561
Gross profit.....	7,917,644	9,916,850	8,066,948
Research and Development Expenses .....	0	0	0
Sales and Marketing Expenses .....	0	0	0
General and Administrative Expenses.....	5,045,483	6,190,254	7,351,803
Interest and Bank Charges	24,772	193,230	663,341
Amortization of Capital Assets	331,528	360,580	268,272
Loss on Sale of Capital Assets	0	3,862	7,096
Net Income (Loss) Before Minority Interest <sup>1</sup>	2,515,861	3,168,924	(223,564)
Working Capital .....	5,266,534	5,120,291	2,040,328
Property, Plant and Equipment.....	1,545,899	1,437,352	1,398,340
Deferred Research and Development.....	0	0	0
Other Intangibles .....	0	0	0
Long Term Liabilities.....	59,000	59,000	46,646
Shareholders' equity .....	7,308,432	7,316,643	3,392,012
Dollar amount .....	200	200	100
Number of securities .....	200	200	100

Note:

- 1 Synergex has an 85% ownership interest in Synergex Logistics. The figure in the above table reflects the consolidation of Synergex Logistics' results before deduction to reflect the 15% minority interest. Please see note 14 to Synergex' financial statements attached as Schedule "H" hereto.
- 2 Shareholders' equity includes share capital, retained earnings, minority interest, and shareholder advances.

## **Management Discussion and Analysis of Financial Condition and Operating Results**

The management discussion and analysis of financial condition of Synergex for the annual and interim financial statements included in this circular are attached as Schedule "K" hereto.

### **Acquisitions and Dispositions**

Synergex made no material acquisitions or dispositions during the five preceding financial years.

### **Management of Synergex**

The following are profiles of Synergex' present members of management who are expected to continue in their positions following completion of the Acquisition:

#### *David Aiello, Chief Executive Officer*

David Aiello, 42, is the founder of Synergex and its predecessor companies. Mr. Aiello received a Chartered Accountant designation in 1986 at which time he was employed in public accounting primarily in the areas of auditing and tax. He is a graduate of the University of Toronto and earned a Bachelor of Commerce degree in 1984.

#### *Nick Blasutto, Chief Financial Officer*

Nick Blasutto, 31, has been with Synergex and in this capacity since 2002. Mr. Blasutto is primarily responsible for financial reporting, budgeting, implementing accounting policies and procedures, liaison with banks, government organizations, and company auditors as well as supervision of accounting staff. From 2000 to 2002, Mr. Blasutto was employed with a business valuation firm where he prepared business valuation reports primarily for private business. In 2002, he received the Chartered Business Valuators designation. From 1993 to 1997 Mr. Blasutto worked for a public accounting firm primarily in the areas of auditing, accounting, and tax. In 1998 he received the Chartered Accountant designation. Mr. Blasutto graduated from Brock University in 1996 with an Honours Bachelor of Accounting in the Co-op Program.

#### *Jean-Paul Rehr, Vice-President, Commercial Distribution Services*

Jean-Paul Rehr, 33, has been in this position since 2003. From 2000 to 2003 Mr. Rehr was Manager, Operations & Customer Service. Mr. Rehr's responsibilities primarily include customer service, purchasing, business development, management of inbound/outbound freight, management of publishing business unit and involvement in IT development. Prior to Synergex, Mr. Rehr was employed by Pegasus Distribution for several years. He is a graduate of a 4-year program of the Ontario College of Art.

#### *Matthew Reiter, Vice-President, Operations*

Matt Reiter, 32, has been in this position since 2001. He has been employed with Synergex and its predecessor corporations since 1993 and has worked in various other capacities. His responsibilities primarily include management of physical logistics operations, which include Synergex' warehouses, the daily operations and staff supervision (he manages 30 employees and four managers), inventory management, and management of client relationships and transactional data. Mr. Reiter graduated from the Business Administration Program at Sheridan College in 1993.

It is intended that all current members of Synergex management retain their respective positions with the Resulting Issuer. These individuals have entered into non-competition and non-solicitation agreements with Synergex.

## **Human Resources**

As of the date of this Circular, Synergex had approximately 78 employees. Temporary labour is utilized to supplement existing staff during busy times. During peak business activity, Synergex may have over 90 employees.

## **Customers**

Two global manufactures each accounted for more than 10% of the sales of Synergex in the financial year ended December 31, 2003. In addition to the two accounts mentioned above, Synergex has approximately 300 active accounts for whom Synergex manages transportation only and approximately 15 logistics customers for whom it manages inventory and the varying responsibilities within the supply chain.

## **Future Developments**

### *RFID Enablement*

As Radio Frequency Identification (“RFID”) advances toward mainstream adoption, Synergex is prepared to be a leader in the Canadian marketplace by providing RFID consulting, feasibility analysis, integration of equipment and software, and support services. Synergex will leverage existing capabilities from its logistics and technology workgroups, showing clients how RFID solutions can significantly reduce costs, improve information management, and yield related efficiencies.

Whether clients are looking to meet compliance requirements with specific retailers or are looking for the long-term benefits of RFID solutions within their global management systems or supply chains, Synergex’ technology management practice will provide skills, solutions, and on-going support to determine the true range of options the client has in deploying RFID technology and achieving EPCglobal compliance standards.

### *DataCoat™ RFID Compliance Facilitation*

Recently, retailers have outlined shipping configuration and physical and electronic compliance requirements related to the next phase of management of their supply chains. Many current suppliers may not be able to meet the standards, on their own, set by retailers within mandated time frames, or they may be unable or unwilling to invest in the equipment and data management infrastructure required to achieve compliance. The unique DataCoat™ RFID Compliance Facilitation solution is under development within Synergex to serve this emerging market.

### *Supply Chain Management, New Industry Sectors*

Synergex is designing services for the Canadian aerospace and automotive industries. A customized response to the requirements of each aerospace and automotive customer will allow Synergex to make full use of its range of skills, including Synergex’ proven expertise in specialized kitting, outsourced assembly and supply chain management, and in dealing with the handling of high-value, time-sensitive components and products. Synergex’ management believes that the aerospace and automotive industries are significant opportunity sectors for Synergex.

### *Business Risk Management*

Including prevention of employee defeasance, Internet hacking, or network viruses, Synergex can help businesses prevent against attack. Synergex' services will address the need for operational continuity, the implementation of solid support and backup system for total company uptime, and an integrated view to corporate security, ranging from background checking for prospective employees to effective electronic firewalls.

### *Out-Tasking*

Companies often find it advantageous to outsource components of their business process. Out-tasking is a modified form of outsourcing in which Synergex accepts responsibility for the performance of a particular function, the management of a particular technology or the delivery of a particular service to an outside organization. Out-tasking may be done on a smaller scale than wholesale outsourcing, using multiple firms to perform specific tasks.

### *Staff Augmentation*

As companies evolve they realize that they may not have the resources available to manage and coordinate their business processes adequately or they wish to convert fixed staff overheads to variable ones.

Synergex offers a variety of technical resources for varying lengths of time, determined by the client's need for people. Synergex' resource deployment managers will assist clients with locating and staffing traditional, task-oriented technical requirements.

## **Proprietary Protection**

Synergex' relevant trademarks, business styles, and domain names (with their expiry dates as presently recorded) are listed below:

### *Trade Marks*

- SHIPITNOW
- SHIPITNOW.COM

### *Business styles (excluding legal corporation names)*

- ATARI DISTRIBUTION CANADA
- XTRUX
- BE CANADA
- COKEM DISTRIBUTION CANADA
- LEC CANADA
- MDC
- TECDC

### *Domain names*

Name	Expiry Date
COMMERCIAL-GATEWAY.COM	December 19, 2005
COMMERCIAL-GATEWAY.NET	December 19, 2005
COMMERCIAL-GATEWAY.ORG	December 19, 2005
DATAFOAT.COM	November 22, 2009

DATA COAT.NET	November 22, 2009
DATA COAT.ORG	November 22, 2009
SHIPITNOW.COM	March 9, 2010
SHIPITNOW.CA	March 9, 2005
SYN-CG.COM	December 19, 2005
SYN-CG.NET	December 19, 2005
SYN-CG.ORG	December 19, 2005
SYNERGEX4X.COM	March 19, 2009
SYNERGEX4X.NET	March 19, 2009
SYNERGEX4X.ORG	March 19, 2009
SYNERGEXCAPITAL.COM	July 16, 2005
SYNERGEXCAPITAL.NET	July 16, 2005
SYNERGEXCAPITAL.ORG	July 16, 2005
SYNERGEXCG.COM	December 18, 2005
SYNERGEXCG.NET	December 18, 2005
SYNERGEXCG.ORG	December 18, 2005
SYNERGEX-CG.COM	December 18, 2005
SYNERGEX-CG.NET	December 18, 2005
SYNERGEX-CG.ORG	December 18, 2005
SYNERGEXCORP.COM	November 17, 2006
SYNERGEXCORP.NET	November 17, 2006
SYNERGEXCORP.ORG	November 17, 2006
SYNERGEXCORPORATION.COM	November 17, 2006
SYNERGEXCORPORATION.NET	November 17, 2006
SYNERGEXCORPORATION.ORG	November 17, 2006
SYNERGEXLOGISTICS.COM	October 16, 2009
SYNERGEXLOGISTICS.NET	October 16, 2009
SYNERGEXLOGISTICS.ORG	October 16, 2009
SYNERGEXFOREX.COM	March 19, 2009
SYNERGEXFOREX.NET	March 19, 2009
SYNERGEXFOREX.ORG	March 19, 2009
SYNERGEXFX.COM	March 19, 2009
SYNERGEXFX.NET	March 19, 2009
SYNERGEXFX.ORG	March 19, 2009
SYNERGEXGC.COM	December 18, 2005
SYNERGEXGC.NET	December 18, 2005
SYNERGEXGC.ORG	December 18, 2005
SYNERGEX-GC.COM	December 18, 2005
SYNERGEX-GC.NET	December 18, 2005
SYNERGEX-GC.ORG	December 18, 2005
SYNERGEXGROUP.COM	May 20, 2009
SYNERGEXGROUP.NET	May 20, 2009
SYNERGEXGROUP.ORG	May 20, 2009
SYNERGEXLOGISTICS.COM	February 28, 2005
SYNERGEXLOGISTICS.NET	March 5, 2005
SYNERGEXLOGISTICS.ORG	March 5, 2005
SYNERGEXUSA.COM	May 13, 2005
SYNERGEXWORLDWIDE.COM	June 14, 2005
SYNERGEXWORLDWIDE.NET	June 14, 2005
SYNERGEXWORLDWIDE.ORG	June 14, 2005
X-TRUX.COM	January 26, 2005
X-TRUX.NET	January 26, 2005
X-TRUX.ORG	January 26, 2005
XTRUX.COM	January 26, 2005
XTRUX.NET	January 26, 2005
XTRUX.ORG	January 26, 2005

Synergex undertakes commercially reasonable steps to protect its know-how, trade secrets and other intellectual property, including physical possession of source codes and use of confidentiality or non-competition agreements.

### **Marketing plans and strategies**

Synergex uses referral and direct selling by managers and executives as its principal method of marketing. The addresses of Synergex' websites are [www.shipitnow.com](http://www.shipitnow.com), [www.synergexcorp.com](http://www.synergexcorp.com) and [www.synergexgroup.com](http://www.synergexgroup.com).

### **Prior Sales**

In 2004, 5,500,000 Preference A shares of Synergex were issued in consideration for \$5,500,000 of shareholders' advances.

### **Indebtedness of Directors, Officers, Promoters and Other Management**

No director, officer, promoter or members of management of Synergex is currently or has been indebted to Synergex during the preceding financial year.

## **Executive Compensation**

The following table sets forth the annual compensation, long-term compensation and all other compensation paid to Synergex' four most highly compensated executive officers, in addition to the Chief Executive Officer of Synergex.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards		Payouts	All other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/ SARs Granted (#)	Shares or Units subject to Resale Restrictions (\$)		
David Aiello, CEO	2004	189,695.33	—	—	—	—	—	—
	2003	82,037.57	—	—	—	—	—	—
	2002	74,193.36	—	—	—	—	—	—
Nick Blasutto, Controller	2004	128,076.81	—	—	—	—	—	—
	2003	93,499.88	1,000	—	—	—	—	—
	2002	12,692.33	—	—	—	—	—	—
Jean-Paul Rehr, VP Operations	2004	143,076.85	—	—	—	—	—	—
	2003	84,884.61	6,000	—	—	—	—	—
	2002	61,653.81	—	—	—	—	—	—
Matthew Reiter, VP Logistics	2004	163,461.47	—	—	—	—	—	—
	2003	134,846.09	21,000	—	—	—	—	—
	2002	101,906.62	—	—	—	—	—	—
Jennette Vibat, Controller	2004	N/A	N/A	—	—	—	—	—
	2003	N/A	N/A	—	—	—	—	—
	2002	95,683.55	500	—	—	—	—	—

### **Termination of Employment, Change in Responsibilities and Employment Contracts**

Pursuant to an amended agreement effective September 20, 2004 between Synergex and David Aiello, Mr. Aiello is employed as the President and Chief Executive Officer of Synergex and is paid an annual salary of \$150,000.

Pursuant to an amended agreement effective September 20, 2004 between Synergex and Matthew Reiter, Mr. Reiter is employed as the Vice President of Synergex and is paid an annual salary of \$200,000.

Pursuant to an amended agreement effective October 15, 2003 between Synergex and Jean-Paul Rehr, Mr. Rehr is employed as the Vice President of Synergex and is paid an annual salary of \$180,000.

Pursuant to an agreement effective October 21, 2002 between Synergex and Nick Blasutto, Mr. Blasutto is employed as the Controller of Synergex and is paid an annual salary of \$150,000.

## **Proposed Compensation**

No changes to the employment arrangements of Synergex senior officers are presently contemplated.

## **Authorized and Issued Share Capital**

Description of Class	Authorized	Amount Outstanding
Common Shares	Unlimited	200
Class A Preferred	Unlimited	5,500,000

## **Corporate Cease Trade Orders or Bankruptcies**

No director or officer of Synergex, or a shareholder holding a sufficient number of securities of Synergex to affect materially the control of the Synergex, is, or within the five years before the date of this Circular has been, a director or officer of any other issuer that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

## **Penalties or Sanctions**

No current director, officer or principal shareholder of Synergex has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision in respect to Synergex.

## **Individual Bankruptcies**

No current director, officer, principal shareholder of Synergex or personal holding company of any such persons has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement, or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

## **Conflicts of Interest**

The directors of Synergex are required by law to act honestly and in good faith with a view to the best interest of Synergex and to disclose any interests which they may have in any project or opportunity with Synergex. In determining whether or not Synergex will participate in any project or opportunity, the remaining directors will primarily consider the degree of risk to which Synergex may be exposed and its financial position at that time.

To the best of Synergex' knowledge, save as described herein, there are no known existing or potential conflicts of interest among Synergex, directors, officers or other members of management of Synergex as a result of their outside business interests except that certain of the directors, officers, and other members of management serve as directors, officers, and members of management of other companies, and therefore it is possible that a conflict may arise between their duties as a director, officer, promoter or member of management of such other companies.

## **Risk Factors**

An investment in Synergex may be affected by a number of factors which investors should review carefully. In addition to other information included in this Circular, an investor should consider the following:

### *Competition*

Synergex' competition is comprised of freight forwarding, comprehensive logistics, distribution, digital art and printing, and information technology procurement and placement businesses. These are highly competitive industries. There are many competitors in these industries and there is a large variation in their size of operations. Size may vary from a small owner managed operation to large companies with several thousand employees. Few competitors offer as broad a menu of services as Synergex

### *Risks Associated with Expansion Activities*

To successfully implement its corporate strategy, Synergex must be able to successfully integrate new assets and skills into an expanded suite of business operations. The consolidation and integration of the functions, systems and procedures related to such presents a management challenge and the failure to achieve such integration could have a material adverse affect on the results of operations and financial condition of Synergex. As a result, although Synergex believes it can successfully integrate its acquisition activities into its operations, there can be no assurance that Synergex will achieve improved operating results.

### *Integration of Acquired Businesses and Growth*

Management believes that Synergex is well positioned for future profitability. As part of its long-term strategy, Synergex intends to acquire complementary businesses that are economically and strategically justified. However, there can be no assurance that Synergex will be able to identify attractive acquisition candidates in the future or that it will succeed in effectively managing the integration of acquired businesses. If the expected synergies from those transactions do not materialize or the failure to implement the acquisition strategy or to successfully integrate acquired businesses may have a material adverse effect on the business, financial condition and results of operations. Management intends to approach acquisitions and internal growth in a disciplined manner and to attempt to grow its business segments that can be facilitated within its existing facilities.

### *Dependence on International Trade and Continuing Trend to Outsourced Logistics Services*

Synergex' principal businesses are directly related to, and their future performance is dependent upon, the volume of international and domestic trade, in particular, cross-border trade between Canada and the United States. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, currency fluctuations and Canadian, United States and foreign law relating to duties, trade restrictions,

foreign investments and taxation. There can be no assurance that trade-related events beyond the control of Synergex, such as an increase in trade restrictions, will not have a material adverse effect on Synergex' business, financial condition, prospects and results of operations.

#### *Dependence on Equipment and Qualified Personnel*

To maintain a competitive position in the industry, Synergex will continue to place an emphasis on high quality of service for its customers. Synergex continues to provide its employees with on-going training and education and utilizes reliable up-to-date capital equipment, computerized systems maintained through an in-house programming staff. There can be no assurance that Synergex will not experience turnover in the future or that Synergex' labour costs will not increase. There is no assurance that the Corporation will be able to continue to hire and retain a sufficient number of qualified personnel.

#### *Creating New Revenue Sources*

In addition to capturing a portion of the market by offering traditional services, Synergex' ability to continue its objectives and grow revenue is based, in part, on its ability to sell additional value-added services to its existing clients in non-traditional business models.

#### *Vulnerability to Economic Conditions*

Synergex' future business, financial condition and operating results may be dependent on the economic environments in which Synergex operates. Demand for Synergex' services could be adversely affected by economic conditions in industries of Synergex' customers. Synergex' business has also experienced and is expected to experience, fluctuations, and is sensitive to external factors such as events which may adversely affect the economy and consumer spending. There can be no assurance that such factors may not have a material adverse effect on Synergex' business, financial condition, prospects and results of operations.

#### *Dependence on Key Personnel*

The success of Synergex is dependant on the abilities, experience and efforts of a number of members of senior management. The experience of these individuals will be an important factor contributing to Synergex' continued success and growth. While Synergex has entered into employment agreements with certain members of its senior management, should any of these persons be unable or unwilling to continue his or her employment with Synergex, the loss of one or more of these individuals could have a short-term adverse effect on Synergex' operations and business prospects. Synergex does not carry "Key Man" insurance policies on any of its officers, directors, or employees.

#### *Seasonality*

Although Synergex' businesses are diversified across various product lines and is carried on with a diverse variety of customers, portions of its business and that of some of its customers (particularly those driven by consumer spending) are subject to seasonality. Synergex' results of operations may vary as a result of such seasonality, however such seasonality is expected to have a diminishing effect as a result of Synergex' ongoing diversification.

#### *Foreign Exchange*

Synergex conducts its business primarily in Canada and purchases a large percentage of the goods it sells in U.S. funds. Exchange rate fluctuations in the spot market are beyond Synergex' control and

there can be no assurance that exchange rate fluctuations will not have a material adverse effect on Synergex' business, results of operations, prospects or financial condition. Synergex continues to analyze the currency-related risks that it faces and engages in hedging transactions to limit its exposure to such risks, but there can be no assurance that any hedging strategy will, if entered into, be successful.

#### *Insurance Limits*

While management believes that Synergex' insurance coverage addresses all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent owner/operator of similar facilities, and is subject to deductible, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis or at current premium levels, that all events that could give rise to a loss or liability are insurable, nor that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of Synergex.

#### **Legal Proceedings**

Synergex is not a party to any material legal proceedings and is not aware of any such proceedings that are contemplated.

#### **Material Contracts**

Other than as provided elsewhere herein, the only agreements or contracts that Synergex has entered into within the past two years which may be reasonably regarded as being currently material is the Share Exchange Agreement.

### **INFORMATION REGARDING THE RESULTING ISSUER**

#### **Summary of Transaction, Resulting Issuer and Business**

The Corporation has entered into the Share Exchange Agreement under which it will purchase all the issued and outstanding shares of Synergex, and the shares of Synergex Logistics not currently owned by Synergex, for an approximate aggregate total price of \$14.4 million, to be paid by the issuance of 53,333,333 Common Shares at a deemed price per share of approximately \$0.27. The Acquisition will constitute a "Change of Business" pursuant to the policies of the TSXV. Upon completion of the Acquisition, Synergex will be a wholly-owned subsidiary of the Corporation (i.e. the Resulting Issuer) and the principal businesses of the Resulting Issuer will be the respective businesses presently carried on by the Corporation and Synergex. Detailed descriptions of the respective businesses of the Corporation and Synergex are included above. Please see "Information Regarding the Corporation" and "Information regarding Synergex".

The Acquisition will be accounted for as a continuity of interests of the Corporation in accordance with Canadian generally accepted accounting principles.

The continuity of interests method is being utilized due to the fact that both corporations are under common control. The proposed transaction is between related parties. Once the transaction is completed, there will no substantive change in ownership of the corporations. The change in the value of equity of David Aiello, the transferor, is less than 20%. It is also management's opinion that the most appropriate method of evaluating management's performance, by the shareholders, on a post transaction basis, is using the continuity of interests method because this method produces prior years' comparative

numbers as if the two entities had been one since inception, which allows a reader the most appropriate historical comparison, since management is the same for both entities before and after the transaction. Accordingly, the proposed transaction would be recorded at carrying amounts.

### **Stated Business Objectives**

The following section contains forward-looking statements of future intention that are not based on historical results.

The Resulting Issuer's primary objective will be to deliver technology-based services within a growing knowledge base. Management's vision is to integrate and inter-relate the Resulting Issuer's workgroups, and to grow through bringing in a growing number of workgroup skills into its work plan and service offering in the interests of its customers. Management's focus will be on growing profitably, focusing on gross margin earned rather than top-line sales, and in managing business risks such as those inherent in handling inventory, processing payments, and exposure foreign exchange rates. These strategies are built into how managers and staff are trained and are vital to the Resulting Issuer's long-term stability. Management of Synergex has learned through years of experience, having tested its concepts with many customers, that customers experience augmentation of sales as a result of their engagement with Synergex, which is delivered with persistent professionalism and accountability related to the customer service issues customers face day by day. Management anticipates that co-operation between workgroups will lay the basis for a New Generation organization, always in the best interests of customers.

### **Available Funds**

Management of the Corporation and Synergex estimate *pro forma* consolidated working capital of the Corporation and Synergex as at December 31, 2004 to be \$7,150,000 and anticipate, after accounting for the amounts and sources of other funds which may be available to it prior to or concurrently with the completion of the Acquisition, that the Resulting Issuer will have approximately \$7,035,000 of available funds upon completion of the Acquisition. The available funds upon completion of the Acquisition are broken down as follows:

Sources of Funds	Amount (\$)
Approximate working capital of the Corporation as at December 31, 2004.....	\$150,000
Approximate working capital of Synergex as at December 31, 2004.....	\$7,000,000
Subtotal estimated consolidated working capital as at December 31, 2004 .....	\$7,150,000
(Less estimated cost of completing the Acquisition and anticipated expenses prior to the closing of the Acquisition).....	\$(115,000)
Total funds available upon completion of the Acquisition.....	\$7,035,000

### **Pro Forma Financial Statements**

The unaudited *pro forma* consolidated financial statements of the Corporation (assuming the completion of the Acquisition) as at and for the three months ended August 31, 2004, consisting of a *pro forma* consolidated statement of operations and a *pro forma* balance sheet and for the year ended May 31, 2004, consisting of a *pro forma* consolidated income statement accompanied by an auditor's compilation report are attached as Schedule "I" to this Circular.

## **Conflicts of Interest**

Since Synergex is owned by David Aiello, who is a director, senior officer and a significant shareholder of the Corporation (through his holding company, 6232051 Canada Inc.), the Acquisition constitutes a “related party transaction” within the meaning of the Related Party Rules. Please see “Special Matters – Related Party Transaction”.

## **Intercorporate Relationships**

Upon completion of the Acquisition, the Resulting Issuer’s group of Subsidiaries will be as reflected under “Information Regarding the Corporation – Intercorporate Relationships”, but revised so as to include Synergex as a further direct Subsidiary and by including Synergex’ Subsidiaries, as reflected under “Information Regarding Synergex – Intercorporate Relationships” as indirect Subsidiaries through Synergex (and to reflect that following the Acquisition Synergex Logistics will be a wholly-owned Subsidiary).

## **Fully Diluted Share Capital and Consolidated Share and Loan Capital**

The fully diluted issued and outstanding share capital of the Resulting Issuer upon completion of the Acquisition will be as follows:

	Number of Securities		Percentage of Total	
	Common Shares	Preferred Shares	Common Shares	Preferred Shares
Issued as of January 17, 2005	58,220,452	—	51.9%	—
Securities reserved by the Corporation for future issue as of January 17, 2005 (excluding securities to be issued pursuant to the Acquisition)	536,100	—	0.5%	—
Securities to be issued under the Share Exchange Agreement	53,333,333	7,500,000 <sup>1</sup>	47.6%	100%
<b>Total</b>	<b>112,089,885</b>	—	<b>100%</b>	—

Notes:

1      Based on current estimates of Closing Working Capital.

## **Consolidated Share and Loan Capital**

The number of Common Shares owned controlled, directly or indirectly, by the current directors, senior officers and control persons of the Corporation, collectively is 30,647,999, being 52.64% of the issued and outstanding Common Shares. Upon completion of the Acquisition, the directors, senior officers and control persons of the Resulting Issuer will beneficially own or control 83,981,332 Common Shares, being 75.28% of the then outstanding Common Shares.

<b>Designation of Security</b>	<b>Amount Authorized as to be Authorized</b>	<b>Amount outstanding as at May 31, 2004</b>	<b>Amount outstanding as at January 17, 2005</b>	<b>Amount to be outstanding in Resulting Issuer upon completion of the Acquisition</b>
Common Shares	Unlimited	54,749,852	58,220,452	111,553,785
Preference Shares Series A	Unlimited	Nil	Nil	7,500,000 <sup>1</sup>

Notes:

1 Based on current estimates of Closing Working Capital.

## **Directors, Officers, Promoters and Persons Holding More Than 10% of the Issued Equity Shares**

It is intended that the individuals listed under the heading “General Proxy Information and Other Meeting Matters – Election of Directors” above will be the directors and officers of the Resulting Issuer. David Aiello will be the only Person to beneficially own or exercise control or direction over more than 10% of the Common Shares of the Resulting Issuer.

## **Public and Insider Ownership**

Members of the public will hold 27,572,453 Common Shares and 83,981,332 Common Shares will be owned, controlled, directly or indirectly, by directors, officers, insiders and promoters of the Resulting Issuer and their associates and affiliates, representing 24.72% and 75.28%, respectively, of the total issued and outstanding Common Shares of the Resulting Issuer.

## **Options and Other Rights to Purchase Common Shares**

The following table sets out information respecting any options, warrants and share purchase rights of the Corporation and the Resulting Issuer which are held by any persons as of the date hereof or that will be held upon completion of the Acquisition.

<b>Option Holder</b>	<b>Number and Designation</b>	<b>Exercise Price</b>	<b>Date of Grant</b>	<b>Expiry Date</b>	<b>Market Value as of the Date of Warrant (and October 25, 2004)<sup>1</sup></b>
Smith, J.L.	415,000, Common	\$0.58	Sept 19/03	Sept 19/08	\$0.62
Gatza, J.	29,100, Common	\$0.73	Jan 7/04	Jan 7/08	\$0.62
Clarke, J.	36,000, Common	\$0.73	Jan 7/04	Jan 7/08	\$0.62
Hacking, C.	36,000, Common	\$0.73	Jan 7/04	Jan 7/08	\$0.62
McKay, I.	20,000, Common	\$0.73	Jan 7/04	Jan 7/08	\$0.62

Note(s)

1 Last trading day prior to the trading halt of the Common Shares.

## **Escrowed Securities**

None of the issued and outstanding Common Shares are subject to escrow and it is not contemplated that any Common Shares will be held in escrow in connection with the Acquisition. However, the TSXV may exercise its discretion and require that a number of the Common Shares issued to David Aiello under the Share Exchange Agreement be subject to a TSXV escrow.

## **Sponsorship**

Wellington West Capital Inc. has been engaged to serve as Sponsor for the Corporation in respect of the TSXV's review of the Acquisition. The Corporation has also applied to the TSXV for an upgrade for the Resulting Issuer to Tier 1, and Wellington West Capital is serving as Sponsor in such regard as well.

## **Investor Relations Arrangements**

Neither the Corporation nor Synergex has entered into any written or oral agreement or understanding with any person to provide any promotional or investor relations services for the Corporation or Synergex or their securities, whether now or in the future.

## **Relationship Between the Corporation/Synergex and Professional Persons**

There is no "professional person", as defined by the applicable policies of the TSXV, engaged by the Corporation or Synergex or any associate of any such professional person, which holds any beneficial interest, direct or indirect, in any securities or property of the Corporation or Synergex or of an associate or affiliate of either of them, or who is expected to be elected, appointed or employed as a director, senior officer or employee of either of the Corporation or Synergex, or of an associate or affiliate of either of them, or is a promoter of the Corporation or Synergex, or of an associate or affiliate of either of them.

## **Auditors, Registrar and Transfer Agent**

The Auditors of the Corporation are BDO Dunwoody LLP. They will continue in such capacity following completion of the Acquisition.

The registrar and transfer agent for the Common Shares is Equity Transfer Services Inc. at its principal office is at 120 Adelaide Street West, Suite 240, Richmond – Adelaide Centre, Toronto, Ontario, Canada M5H 4C3. Equity Transfer Services Inc. will continue to act as the Resulting Issuer's transfer agent following completion of the Acquisition.

## **APPROVAL OF THE BOARD**

This Circular has been approved by the Board.

## **CERTIFICATE OF THE CORPORATION**

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of the Corporation assuming completion of the Acquisition.



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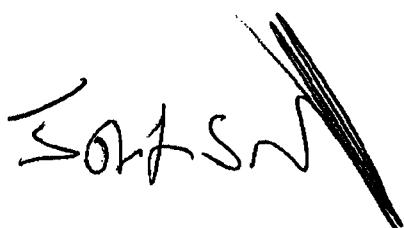
David Aiello  
Chief Executive Officer, President  
and Chief Operating Officer



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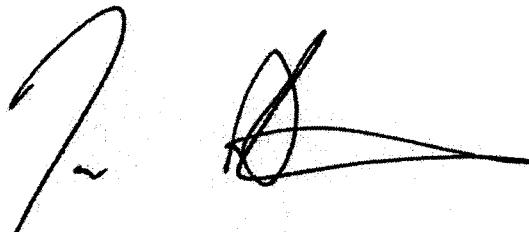
Nick Blasutto  
Chief Financial Officer

## **ON BEHALF OF THE BOARD OF DIRECTORS**



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John L. Smith  
Director



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Tom Davidson  
Director

## CERTIFICATE OF SYNERGEX

The foregoing as it relates to Synergex constitutes full, true and all plain disclosure of all material facts relating to the securities of Synergex.



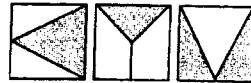
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David Aiello  
Chief Executive Officer and sole director



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Nick Blasutto  
Controller



# KRAFT YABROV VALUATIONS INC.

3160 STEELES AVENUE EAST, SUITE 300, MARKHAM, ONTARIO L3R 3Y2  
TEL: (905) 475-2222 • FAX: (905) 475-9360 • TOLL FREE 1-888-563-6868

## CONSENT

We refer to the Fairness Opinion and Valuation Report dated January 17, 2005, which we prepared for Messrs. R. K. Watson and T. Davidson, Directors, relating to the proposed transaction by which Carma Financial Services Corporation would purchase all the outstanding shares of Synergex Group Inc.

We consent to the filing of the Fairness Opinion and Valuation Report with the Ontario Securities Commission and the inclusion of the Summary of the Fairness Opinion and Valuation Report in this document.

Yours very truly,

**KRAFT YABROV VALUATIONS INC.**

*Kraft Yabrov Valuations Inc.*

Markham, Canada  
January 17, 2005



Driving growth

**BDO Dunwoody LLP**  
Chartered Accountants  
and Advisors

60 Columbia Way Suite 400  
Markham Ontario Canada L3R 0C9  
Telephone: (905) 946-1066  
Telefax: (905) 946-9524

[www.bdo.ca](http://www.bdo.ca)

## AUDITORS' CONSENT

To the Directors of Carma Financial Services Corporation

We have read the Notice of Annual and Special Meeting of Shareholders and Management Information Circular (the "Circular") of Carma Financial Services Corporation ("Carma") dated January 17, 2005, in connection with the amendment of the share capital of Carma, the acquisition of Synergex Group Inc., and the change of the name of Carma. We have complied with Canadian generally accepted standards for auditors' involvement with offering documents.

With respect to the above mentioned Circular, we consent to the use in the Circular of our audit report to the directors of Carma on the consolidated balance sheet as at May 31, 2004 and the consolidated statements of operations, deficit and cash flows for the year ended May 31, 2004. Our report is dated August 23, 2004 (except as to Note 19 which is at December 24, 2004).

*BDO Dunwoody LLP*

Chartered Accountants

Toronto, Canada  
January 17, 2005



### AUDITORS' CONSENT

We have read the Notice of Annual and Special Meeting of Shareholders and Management Information Circular (the "Circular") of Carma Financial Services Corporation ("Carma") dated January 17, 2005, in connection with the amendment of the share capital of Carma, the acquisition of Synergex Group Inc., and the change of the name of Carma. We have complied with Canadian generally accepted standards for auditor's involvement with offering documents.

We consent to the use in the Circular of our audit report to the shareholders of Synergex Group Inc. on the consolidated balance sheet as at December 31, 2003 and the consolidated statement of income, deficit and cash flows for the year ended December 31, 2003. Our report is dated March 19, 2004, except for Note 14, which is as of October 8, 2004.

A handwritten signature of the 'D F' logo, followed by the firm's name 'DAURIO &amp; FRANKLIN LLP' written in a cursive script.

Chartered Accountants

Toronto, Canada  
January 17, 2005

200 - 1 Concorde Gate  
North York, ON M3C 4G2

January 17, 2005

Tel: 416 391-2900  
Fax: 416 391-2748  
Web site: [www.mintzca.com](http://www.mintzca.com)

TSX Venture Exchange  
P.O. Box 450  
3<sup>rd</sup> Floor, 130 King Street West  
Toronto, Ontario  
M5X 1J2

**Attention: Ungas Chadda, Corporate Finance Manager &  
Kathryn McLean, Manager, Listed Services**

Dear Sirs/Mesdames:

**Re: Carma Financial Services Corporation (the "Company")**

We refer to the management information circular of the Company dated January 17, 2005 relating to the amendment of the share capital of the Company, the acquisition of Synergex Group Inc. and the change of the name of the Company.

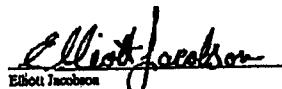
We consent to the use in the above-mentioned management information circular of our report dated August 22, 2003 to the shareholders of the Company on the following financial statements:

- Consolidated balance sheets as at May 31, 2003 and 2002;
- Consolidated statements of operations, deficit and cash flows for each of the years in the two-year period ended May 31, 2003.

We report that we have read the management information circular and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the financial statements upon which we have reported or that are within our knowledge as a result of our audit of such financial statements.

This letter is provided solely for the purpose of assisting the stock exchange officials to which it is addressed in discharging their responsibilities and should not be used for any other purpose. Any use that a provincial securities regulator or other third party makes of this letter, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this letter.

Yours truly,



Elliott Jacobson

by: Elliott Jacobson, CA  
AC/mm

:ODMA\PCDOCS\MINTZ\136855\1



A member of Collins Barrow Canada  
and Moore Rowland International,  
associations of independent accounting  
firms throughout the world

**SCHEDULE "A"**  
**ACQUISITION RESOLUTION**

BE IT RESOLVED THAT:

1. The proposed acquisition (the "Acquisition") of all the issued and outstanding shares of Synergex Group Inc. ("Synergex") by Carma Financial Services Corporation (the "Corporation") on the terms and conditions contained in the share exchange agreement between the Corporation, David Aiello and Matthew Reiter (the "Share Exchange Agreement"), is hereby authorized, approved and adopted and the Corporation be and is hereby authorized to (i) issue to David Aiello 52,763,333 common shares of the Corporation ("Common Shares") at a deemed price per share of \$0.27 and such number of Series A preferred shares of the Corporation as have an aggregate value equal to the total of Synergex' consolidated current assets less the total of its consolidated current liabilities as shown on the balance sheet of Synergex and its subsidiary, on a consolidated basis, as at the Closing Date of the Acquisition; and (ii) issue to Matthew Reiter 570,000 Common Shares at a deemed price per share of \$0.27; and
2. Any officer or director of the Corporation is hereby authorized and directed for and on behalf of the Corporation to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person's opinion may be necessary or desirable to give full effect to the foregoing resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or doing of any such act or thing.

**SCHEDULE “B”**  
**ARTICLES AMENDMENT RESOLUTION**

BE IT RESOLVED THAT:

1. The articles of Carma Financial Services Corporation (the “**Corporation**”) be amended to:
  - (a) (i) restate the rights, privileges, conditions and restrictions attaching to the common shares of the Corporation and replace them with the rights, privileges, conditions and restrictions, as set out in Schedule 1 to the articles of amendment (the “**Articles of Amendment**”) to be filed in connection with the amendments to the share capital of the Corporation contemplated herein, the form of which is annexed to this Circular as Schedule “B-2”; (ii) delete the Series I Preference shares of the Corporation in their entirety; (iii) create a class of preferred shares (the “**Preferred Shares**”), issuable in series, the rights, privileges, conditions and restrictions of such Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment; and (iv) to create a series of Preferred Shares (the “**Series A Preferred Shares**”), the rights, privileges, conditions and restrictions of such Series A Preferred Shares to be as set out in Schedule 1 to the Articles of Amendment; and
  - (b) change the name of the Corporation to “Synergex Corporation.”
2. Any officer or director of the Corporation is hereby authorized and directed for and on behalf of the Corporation to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person’s opinion may be necessary or desirable to give full effect to the foregoing resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or doing of any such act or thing.

**SCHEDULE "B-2"**  
**PROVISIONS ATTACHING TO THE COMMON SHARES, PREFERRED SHARES  
AND SERIES A PREFERRED SHARES OF THE CORPORATION**

- A.** To delete the Series I Preference shares in their entirety and remove the rights, privileges, conditions and restrictions attached thereto.
- B.** To delete the rights, privileges, conditions and restrictions attaching to the Common shares of the Corporation, and replace them with the rights, privileges, conditions and restrictions as set out in Schedule 1, attached.
- C.** To create an unlimited number of Preferred Shares, issuable in series, the rights, privileges, conditions and restrictions as set out in Schedule 1, attached.
- D.** To create an unlimited number of Series A Preferred Shares, the rights, privileges, conditions and restrictions as set out in Schedule 1, attached.
- E.** After giving effect to the foregoing, the authorized capital of the Corporation shall be:
  - an unlimited number of Common Shares;
  - an unlimited number of Preferred Shares, issuable in series; and
  - an unlimited number of Series A Preferred Shares.

## SCHEDULE 1

### 1. PROVISIONS ATTACHING TO PREFERRED SHARES

The Preferred shares, as a class, shall have attached thereto the following rights, privileges, restrictions and conditions:

#### 1.1 *Preferred Shares Issuable in Series*

The Preferred shares may, at any time and from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by the directors of the Corporation. The directors of the Corporation may, before issuance and subject as hereinafter provided, determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred shares of each series including, without limiting the generality of the foregoing:

- (a) the rate, amount or method of calculation of any dividends, whether cumulative, non-cumulative or partially cumulative, and whether such rate, amount or method of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and place or places of payment thereof and the date or dates from which any such dividends shall accrue and any preference of such dividends;
- (b) any rights of redemption and/or purchase and the redemption or purchase prices and terms and conditions of any such rights;
- (c) any rights of retraction vested in the holders of Preferred shares of such series and the prices and terms and conditions of any such rights and whether any other rights of retraction may be vested in such holders in the future;
- (d) any voting rights;
- (e) any conversion rights;
- (f) any rights to receive the remaining property of the Corporation upon dissolution, liquidation or winding-up and the amount and preference of any such rights;
- (g) any sinking fund or purchase fund; and
- (h) any other provisions attaching to any such series of the Preferred shares,

The whole subject to the issue by the Director appointed under the *Business Corporations Act* (Ontario) (the "Act") of a certificate of amendment in respect of articles of amendment in prescribed form to designate a series of Preferred shares.

#### 1.2 *Ranking of Preferred Shares*

No rights, privileges, restrictions or conditions attached to a series of Preferred shares shall confer upon a series a priority in respect of dividends or return of capital over any other series of Preferred shares then outstanding. The Preferred shares shall be entitled to priority over the

Common shares of the Corporation and over any other shares of the Corporation ranking junior to the Preferred shares with respect to priority in the payment of dividends and the distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs. If any cumulative dividends or amounts payable on a return of capital in respect of a series of Preferred shares are not paid in full, the Preferred shares of all series shall participate rateably in respect of such dividends, including accumulations, if any, in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of a repayment of capital in accordance with the sums that would be payable on such repayment of capital if all sums so payable were paid in full; provided however, that in the event of there being insufficient assets to satisfy in full all such claims to dividends and return of capital, the claims of the holders of the Preferred shares with respect to repayment of capital shall first be paid and satisfied and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Preferred shares of any series may also be given such other preferences, not inconsistent with sections 1.1 to 1.4 hereof, over the Common shares and over any other shares ranking junior to the Preferred shares as may be determined in the case of such Preferred shares.

#### 1.3 *Voting Rights*

Except as hereinafter referred to or as otherwise required by law or in accordance with any voting rights which may from time to time be attached to any series of Preferred shares, the holders of the Preferred shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of the Corporation.

#### 1.4 *Approval of Holders of Preferred Shares*

The rights, privileges, restrictions and conditions attaching to the Preferred shares as a class may be added to, changed or removed, but only with the approval of the holders of the Preferred shares given as hereinafter specified.

The approval of the holders of the Preferred shares to add to, change or remove any right, privilege, restriction or condition attaching to the Preferred shares as a class or to any other matter requiring the consent of the holders of the Preferred shares as a class may be given in such manner as may then be required by law, subject to a minimum requirement that such approval shall be given by instrument or instruments in writing by the holders of at least two-thirds of the issued and outstanding Preferred shares, or a resolution passed by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of Preferred shares duly called for that purpose. The formalities to be observed in respect of the giving of notice of any such meeting or any adjourned meeting and the conduct thereof shall be those from time to time required by the *Business Corporations Act* (Ontario) (as from time to time amended, varied or replaced) and prescribed in the by-laws of the Corporation with respect to meetings of shareholders. On every poll taken at a meeting of the holders of Preferred shares as a class, each holder entitled to vote thereat shall have one vote in respect of each Preferred share held by him.

### 2. PROVISIONS ATTACHING TO SERIES A PREFERRED SHARES

The Series A Preferred shares shall have attached thereto the following rights, privileges, restrictions and conditions:

## 2.1 *Dividends*

- (a) "**Dividend Rate**" as hereinafter referred to with respect to each Series A Preferred share means the rate of the HSBC Bank Canada prime lending rate, as determined on the date of issuance of the first Series A Preferred share and subsequently on the first day of each calendar quarter thereafter, plus 0.75%.
- (b) "**Dividend Amount**" as hereinafter referred to with respect to each Series A Preferred share means \$1.00 multiplied by the Dividend Rate.
- (c) Each Series A Preferred share shall entitle the holder thereof to receive, out of the monies of the Corporation properly applicable to the payment of dividends, when, as and if declared by the board of directors of the Corporation, a quarterly, preferential, cumulative dividend equal to one quarter of the Dividend Amount.
- (d) Any dividend may be paid in one or more instalments in the discretion of the board of directors of the Corporation.

## 2.2 *Redemption*

- (a) "**Series A Redemption Amount**" as hereinafter referred to with respect to each Series A Preferred share means \$1.00 together with all dividends accrued and unpaid thereon up to and including the date of redemption (the "**Redemption Date**").
- (b) The Corporation may, upon giving notice as hereinafter provided, redeem the whole or any part of the Series A Preferred shares upon payment of the Series A Redemption Amount, in cash or other means of immediately available funds, for each share to be redeemed. Not less than 10 days' notice in writing of such redemption shall be given by mailing such notice to the registered holders of the shares to be redeemed, specifying the Redemption Date and place or places of redemption.
- (c) On the Redemption Date the Corporation shall pay or cause to be paid to the order of the registered holder of each Series A Preferred share then to be redeemed the Series A Redemption Amount, on presentation and surrender, at the place or places specified for redemption in the notice, of the certificate(s) representing such Series A Preferred shares. If only a part of the total Series A Preferred shares represented by any certificate shall be redeemed, a new certificate for the balance shall be issued at the expense of the Corporation. From and after the Redemption Date, the holder of each Series A Preferred share to be redeemed shall cease to be entitled to dividends and shall not be entitled to exercise any of the rights as shareholder in respect thereof unless payment of the Series A Redemption Amount shall not be made upon presentation of certificate(s) in accordance with the foregoing provisions, in which case the rights of the holder in respect of those Series A Preferred shares for which payment has not been made shall remain unaffected. The Corporation shall have the right at any time after the Redemption Date to deposit the aggregate Series A Redemption Amount of the Series A Preferred shares to be redeemed or of such of the said shares represented by

certificates as have not as of the date of such deposit been surrendered by the holder thereof in connection with such redemption, to a special account at any chartered bank or any trust company to be paid without interest to or to the order of the holder of such Series A Preferred shares upon presentation and surrender to such bank or trust company of the certificates representing the same. Upon such deposit(s) being made, the Series A Preferred shares in respect whereof such deposit(s) shall have been made shall be deemed to have been redeemed and the right of the holder(s) thereof after such deposit shall be limited to receiving, without interest, the Series A Redemption Amount, so deposited against presentation and surrender of the said certificates held by him. Any interest allowed on any such deposit shall belong to the Corporation, provided that with any such deposit the Corporation shall forthwith mail to the holder of each such Series A Preferred share a notice in writing advising of such deposit and specifying the name of the chartered bank or trust company, as the case may be, wherein such special account is for the time being maintained.

Where only a part of the total Series A Preferred shares is to be redeemed, the shares to be redeemed shall be selected either:

- (i) as nearly as may be in proportion to the number of Series A Preferred shares registered in the name of each shareholder; or
  - (ii) in such other manner as the board of directors in its sole discretion may deem equitable.
- (d) For greater certainty, should the Redemption Date of the Series A Preferred shares take place on a date other than that of the quarterly fixing of the Dividend Rate, the shareholder shall be entitled to receive, in addition to any unpaid dividends declared as of the end of the previous quarter, an amount equal to 1/365th of the Dividend Amount of the current quarter for each day up to and including the day of redemption of the Series A Preferred shares within that quarter.
- (e) If the Corporation is not permitted, by insolvency provisions or other provisions of applicable law or the rights, privileges, restrictions and conditions attaching to any shares of the Corporation ranking on a parity with or prior to the Series A Preferred shares, to redeem all of the Series A Preferred shares duly tendered by the holders of such shares pursuant to subsection 2.2 (b), the Corporation shall redeem only the maximum number of Series A Preferred shares (rounded to the next lower multiple of one share) which the directors of the Corporation determine the Corporation is then permitted to redeem. Such redemption will be made *pro rata* (disregarding fractions of shares) from each holder of tendered Series A Preferred shares according to the number of Series A Preferred shares duly tendered for redemption by each such holder and the Corporation shall then issue and deliver to each such holder, a new share certificate, at the expense of the Corporation, representing the Series A Preferred shares not redeemed by the Corporation.

If the Corporation fails to redeem, because of insolvency provisions or other provisions of applicable law or the rights, privileges, restrictions and conditions attaching to any shares of the Corporation ranking on a parity with or prior to the Series A Preferred shares, all of the Series A Preferred shares tendered by the holders of such shares pursuant to subsection 2.2 (b), the Corporation shall redeem, on each dividend payment date after such Series A Preferred shares are tendered, from the Series A Preferred shares tendered by the holders thereof pursuant to subsection 2.2 (b) in the same manner as set forth therein, the lesser of (i) the number of Series A Preferred shares so tendered, and (ii) the number of Series A Preferred shares (rounded to the next lower multiple of one share and selected *pro rata* from each holder of Series A Preferred shares so tendered according to the number of Series A Preferred shares so tendered by each such holder) which the directors of the Corporation determine the Corporation is then permitted to redeem. The Corporation shall be under no obligation to give any notice to the holders of Series A Preferred shares in respect of the redemptions provided for in this subsection.

If the directors of the Corporation have acted in good faith in making any of the determinations referred to above as to the number of Series A Preferred shares which the Corporation is permitted at any time to redeem, the directors of the Corporation, and the Corporation, shall have no liability in the event that any such determination proves inaccurate.

The inability of the Corporation to effect a redemption in whole on a Redemption Date or on a subsequent dividend payment date shall not affect or limit the obligation of the Corporation to pay any dividends accrued or accruing on the Series A Preferred shares from time to time not redeemed and remaining outstanding.

### 2.3 ***Participation in Assets on Dissolution***

In the event of the liquidation, dissolution, winding-up of the Corporation (whether voluntary or involuntary), reduction of capital or other distribution of its assets among shareholders by way of repayment of capital, the holder of each Series A Preferred share shall be entitled to receive, before any distribution of any part of the assets of the Corporation among the holders of any other class of shares, the Series A Redemption Amount per Series A Preferred share together with all dividends due thereon and no more; provided, however, if the aggregate amount available for distribution to the holders of Series A Preferred shares is less than the amount otherwise payable to them pursuant to the provisions hereof, then each Series A Preferred share shall entitle the holder thereof to participate in the amount so available for distribution, *pro rata*.

Except as herein expressly provided, the Series A Preferred shares shall not confer any right upon the holder thereof to participate in profits or assets of the Corporation.

## 2.4 *Voting*

Holders of Series A Preferred shares shall be entitled to one vote for each Series A Preferred share held by them respectively. Notwithstanding the forgoing, in the event of any consolidation or subdivision of Common shares from time to time, the number of votes for each Series A Preferred share shall be adjusted in the manner determined by the directors of the Corporation, acting in good faith, to be appropriate in light of such consolidation or subdivision of the Common shares.

## 3. PROVISIONS ATTACHING TO THE COMMON SHARES

The Common shares shall have attached thereto the following rights, privileges, restrictions and conditions:

### 3.1 *Dividends*

Subject to the provisions of section 3.2 hereof, after the full amount of the dividends payable on the Preferred shares has been paid, up to and including the date of the declaration of the dividend on the Common shares, any and all further dividends declared for that financial year by the directors of the Corporation shall be declared on all the Common shares at the time outstanding. For greater certainty, any dividends accumulating from a date immediately following the date of payment of any quarterly dividend on the Series A Preferred shares to the date of declaration of any dividends on the Common shares, shall be paid to the holders of the Series A Preferred shares before any dividends are paid on the Common shares.

No dividend shall be paid on the Common shares for a financial year of the Corporation if the realizable value of the Corporation's assets after the payment of such dividend would be less than the aggregate of:

- (e) its liabilities; and
- (f) to the extent not included in calculating the Corporation's liabilities, the redemption amount for each Preferred share of the Corporation then outstanding, including, without limitation, the Series A Redemption Amount for each Series A Preferred share of the Corporation then outstanding, together with all dividends due thereon up to and including the date of the declaration of the dividend.

### 3.2 *Participation In Assets On Dissolution*

In the event of the liquidation, dissolution, winding-up of the Corporation (whether voluntary or involuntary), reduction of capital or other distribution of its assets among shareholders by way of repayment of capital, the holders of the Common shares shall be entitled to receive, in equal amounts per share, without preference or distinction, all of the property and assets of the Corporation remaining after payment to the holders of the Preferred shares.

### **3.3 *Voting***

Holders of Common shares shall be entitled to one vote for each Common share held by them respectively.

### **3.4 *Restrictions on Class Voting***

Holders of shares of a class or series (whether Preferred, Common or otherwise) are not entitled to vote separately as a class upon a proposal to amend the articles of the Corporation to:

- (g) increase or decrease any maximum number of authorized shares of such class or series, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of such class or series;
- (h) effect an exchange, reclassification or cancellation of the shares of such class or series; or
- (i) create a new class or series of shares equal or superior to shares of such class or series.

**SCHEDULE "C"**  
**BY-LAW RESOLUTION**

**BE IT RESOLVED THAT:**

1. By-Law No. 3, being a general by-law, in the form annexed to this Circular as Schedule "C-2" is hereby confirmed as a by-law of the Corporation;
2. By-Law No. 1 and By-Law No. 2 of the Corporation are hereby repealed; and
3. Any officer or director of the Corporation is hereby authorized and directed for and on behalf of the Corporation to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person's opinion may be necessary or desirable to give full effect to the foregoing resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or doing of any such act or thing.

**SCHEDULE "C-2"**  
**BY-LAW NO. 3**

a by-law relating generally to the transaction of the business and affairs of

**CARMA FINANCIAL SERVICES CORPORATION**  
**(the "Corporation")**

**BE IT ENACTED** as a by-law of the Corporation as follows:

**DEFINITIONS AND INTERPRETATION**

**1. DEFINITIONS**

In this by-law:

"Act" means the *Business Corporations Act* (Ontario) and the regulations thereunder, as amended from time to time, or any successor Act or regulations thereto, as the case may be;

"Board" means the board of directors of the Corporation; and

"Meetings of shareholders" includes annual and special meetings of shareholders.

Unless it is otherwise provided for herein, any other words and expressions used in this by-law have the meaning attributed thereto in the Act.

**2. INTERPRETATION**

Words importing the singular number only shall include the plural and vice versa. Words importing the masculine gender shall include the feminine and neuter genders and vice versa.

**MEETINGS OF SHAREHOLDERS**

**3. ANNUAL MEETING**

If required, the annual meeting of shareholders shall be held at the time and place determined by the Board for the purpose of hearing and receiving the reports and statements required by the Act to be read or laid before the shareholders of the Corporation at an annual meeting, electing directors, appointing auditors and fixing or authorizing the Board to fix the auditor's remuneration, and for the transaction of such other business as may properly be brought before the meeting.

**4. SPECIAL MEETING**

Subject to the Act, the Board may at any time call a special meeting of shareholders of the Corporation to be held at the time and place determined by the Board.

**5. ELECTRONIC MEETINGS**

A meeting of shareholders may be held by telephonic or electronic means and a shareholder who, through those means, votes at a meeting or establishes a communications link to a meeting shall be deemed to be present at that meeting.

**6. NOTICES**

Notice of the time and place of each meeting of shareholders shall be sent not less than 21 nor more than 50 days before the date of the meeting to each director, to the auditor of the Corporation and to each shareholder entitled to vote at the meeting. Notice of a meeting of shareholders called for any purpose other than consideration of the financial statements and the auditor's report thereon, election of directors and appointment of the auditor of the Corporation, shall state the nature of such business in sufficient detail to permit the shareholder to form a reasoned judgment thereon and shall be accompanied by the text of any special resolution to be submitted to the meeting.

**7. PERSONS ENTITLED TO BE PRESENT**

The only persons entitled to attend a meeting of shareholders are those persons entitled to vote thereat, the directors of the Corporation, the auditor of the Corporation and others who are entitled or required under any provision of the Act or the by-laws of the Corporation to be present at the meeting. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.

**8. QUORUM**

Two persons present in person or represented by proxy, entitled to vote at a meeting of shareholders constitute a quorum. If a quorum is present at the opening of a meeting of shareholders, the shareholders present may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting.

**9. PROXIES**

- (a) A shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder or one or more alternate proxyholders, who are not required to be shareholders, to attend and act at the meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy.
- (b) A proxy shall be executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a body corporate, by an officer or attorney thereof duly authorized.

## **10. SCRUTINEERS**

At each meeting of shareholders one or more scrutineers may be appointed to serve at the meeting by a resolution of the meeting or by the chairman with the consent of the meeting. Such scrutineers need not be shareholders of the Corporation.

## **11. VOTES TO GOVERN**

Subject to the Act or the articles of the Corporation, at all meetings of shareholders all questions proposed for the consideration of the shareholders shall be determined by a majority of the votes cast on the question. In the case of an equality of votes the Chairman of the meeting shall not be entitled to a second or casting vote.

## **12. VOTING**

- (a) Voting at a meeting of shareholders shall be by show of hands except where a ballot is required to be conducted pursuant to the Act or demanded by a shareholder or proxyholder entitled to vote at the meeting or where required by the Chairman of the meeting. A shareholder or proxyholder may demand a ballot either before or after any vote by show of hands. Upon a show of hands every person present and entitled to vote has one vote. Whenever a vote by show of hands has been taken upon a motion, unless a ballot thereon is demanded, a declaration by the chairman of the meeting that the vote upon the motion has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting is *prima facie* evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the motion, and the result of the vote so taken is the decision of the shareholders of the Corporation upon the motion. A demand for a ballot may be withdrawn at any time prior to the taking of the ballot.
- (b) Upon a ballot each shareholder who is present or represented by proxy is entitled, in respect of the shares which he is entitled to vote at the meeting upon the motion, to that number of votes provided by the Act or the articles in respect of those shares and the result of the ballot is the decision of the shareholders of the Corporation upon the motion.

## **13. ADJOURNMENT**

The Chairman of any meeting of shareholders may, with the consent of the meeting, and subject to the provisions of the Act and to such conditions as the meeting may decide, adjourn the same from time to time and from place to place.

## **14. CHAIRMAN**

In the event that the chairman of the Board, if any, the president or any vice-president fails to assume the chairmanship of a meeting in accordance with paragraphs 23, 24 and 25 of this by-law within 60 minutes after the time appointed for the holding of the meeting, the persons present at the meeting and entitled to vote thereat shall choose a person from their number to be the chairman of the meeting.

## **DIRECTORS**

### **15. NUMBER**

The number of directors shall be not fewer than the minimum and not more than the maximum provided in the articles. The number of directors shall be determined by the directors when they are empowered by special resolution to make such determination and otherwise the number of directors shall be determined by special resolution.

### **16. QUORUM**

Subject to the articles of the Corporation, a quorum at any meeting of directors is:

- (a) where the articles set out the number of directors, a majority of that number; or
- (b) where the articles set out the minimum and maximum number of directors, a majority of the number of directors which then constitutes the Board.

### **17. ELECTION AND TERM**

Shareholders of the Corporation shall, at each annual meeting of shareholders, elect directors to hold office for a term expiring at the annual meeting of shareholders following their election.

### **18. CALLING OF MEETINGS**

The Board, a quorum of the directors, the president or the secretary may at any time call a meeting of the Board to be held at the time and place determined by the Board or by the person calling the meeting. Meetings of the Board may be held at any place within or outside Ontario. In any financial year of the Corporation, a majority of the meetings of the Board need not be held within Canada. Notice of every meeting so called shall be given to each director by sending the notice not less than 2 days before the day on which the meeting is to be held. A director may in any manner and at any time waive notice of a meeting of directors and attendance of a director at a meeting of directors is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not properly called.

If a quorum of directors is present, each newly elected Board may without notice hold its first meeting for the purposes of its organization and the election and appointment of officers immediately following the meeting of shareholders at which such Board was elected.

### **19. NOTICES**

Notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting except where the Act requires such purpose or business to be specified.

**20. CHAIRMAN**

In the event that the chairman of the Board, if any, the president or any vice-president fails to assume the chairmanship of a meeting of directors in accordance with paragraphs 23, 24 and 25 of this by-law within 60 minutes after the time appointed for the holding of the meeting, the persons present at the meeting and entitled to vote thereat shall choose a person from their number to be the chairman of the meeting.

**21. VOTES TO GOVERN**

At all meetings of the Board every question shall be decided by a majority of the votes cast on the question and in the case of an equality of votes the Chairman of the meeting shall not be entitled to a second or casting vote.

**OFFICERS**

**22. APPOINTMENT**

Subject to the articles, the Board may from time to time appoint a president, one or more vice-presidents (to which title may be added words indicating seniority or function), a secretary, a treasurer and such other officers as the Board may determine, including one or more assistants to any of the officers so appointed. The Board may specify the duties of and, in accordance with this by-law and subject to the provisions of the Act, delegate to such officers powers to manage the business and affairs of the Corporation. Two or more offices of the Corporation may be held by the same person.

**23. CHAIRMAN OF THE BOARD**

The Board may from time to time appoint a chairman of the Board who shall be a director. If appointed, the chairman shall, subject to the provisions of the Act or the articles, preside at all meetings of the shareholders and of the Board and have such other powers and duties as the Board may specify. During the absence or disability of the chairman of the Board, his duties shall be performed and his powers exercised by the president.

**24. PRESIDENT**

Subject to any duties imposed upon the chairman of the Board, if one is appointed, the president shall preside at all meetings of the shareholders and of the Board and is responsible for the general supervision, subject to the authority of the Board, of the business and affairs of the Corporation.

**25. VICE-PRESIDENT**

During the absence or inability of the president to act, his duties shall be performed and his powers shall be exercised by the vice-president, if any, or if there is more than one, by the vice-president selected by the Board. A vice-president shall also perform such duties

and exercise such powers as the president or the Board may from time to time delegate to him.

**26. SECRETARY**

The secretary shall:

- (a) give or cause to be given all notices required to be given to shareholders, directors, auditors and members of committees;
- (b) attend all meetings of directors, shareholders and committees and enter or cause to be entered in books kept for that purpose minutes of all proceedings at such meetings; and
- (c) be the custodian of all books, papers, records, documents, corporate seals, if any, and other instruments of the Corporation save those entrusted by resolution of the Board to the custody of the treasurer or other officer or agent of the Corporation.

The secretary may delegate his duties to a nominee from time to time.

**27. TREASURER**

The treasurer shall keep or cause to be kept full and accurate books of account in which shall be recorded all receipts and disbursements of the Corporation; control the deposit of money, the safekeeping of securities and the disbursement of funds; and render to the Board, whenever required of him, an account of the financial affairs of the Corporation.

**28. POWERS AND DUTIES OF OTHER OFFICERS**

The powers and duties of all other officers shall be such as the terms of their engagement call for or as the Board or the president may specify. Any of the powers and duties of an officer to whom an assistant has been appointed may be exercised and performed by such assistant unless the Board or the president otherwise directs.

**29. VARIATION OF POWERS AND DUTIES**

The Board may from time to time and subject to the provisions of the Act, vary, add to or limit the powers and duties of any officer.

**30. TERM OF OFFICE**

The terms of employment of the officers shall be settled by the Board. In the absence of written agreement to the contrary, each officer holds office until he resigns, his successor is appointed or he is removed by the Board at its pleasure.

**31. FIDELITY BONDS**

The Board may at any time require any officer, employee or agent of the Corporation to furnish a bond for the faithful discharge of his duties, in such form and with such surety as the Board determines.

## **PROTECTION OF DIRECTORS, OFFICERS AND OTHERS**

### **32. LIMITATION OF LIABILITY**

No director or officer shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee, or for joining in any receipt or other act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the monies of the Corporation shall be invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious acts of any person with whom any of the monies, securities or effects of the Corporation shall be deposited, or for any loss occasioned by any error of judgement or oversight on his part, or for any other loss, damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto; provided that nothing herein shall relieve any director or officer from the duty to act in accordance with the Act and the regulations thereunder or from liability for any breach thereof.

### **33. INDEMNITY**

Subject to the Act, the Corporation shall indemnify a director or officer, a former director or officer, or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor (or a person who undertakes or has undertaken any liability on behalf of the Corporation or any such body corporate) and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgement, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or such body corporate, if:

- (a) he acted honestly and in good faith with a view to the best interests of the Corporation; and
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.

### **34. INSURANCE**

The Corporation may purchase and maintain insurance for the benefit of any person referred to in paragraph 33 to the extent permitted by the Act.

## **BANKING ARRANGEMENTS, CONTRACTS, ETC.**

### **35. BANKING ARRANGEMENTS**

All funds of the Corporation shall be deposited in its name in such account or accounts as are designated by the Board. Withdrawals from such account or accounts and the making, signing, drawing, accepting, endorsing, negotiating, lodging, depositing or transferring of

any cheques, promissory notes, drafts, acceptances, bills of exchange and orders for the payment of money with the institution maintaining such account or accounts shall be made by such person or persons as the Board from time to time determines.

### **36. EXECUTION OF INSTRUMENTS**

Deeds, transfers, assignments, contracts and any other documents of the Corporation, shall be signed by any officer or director or as otherwise directed by the Board.

Any director or officer of the Corporation is hereby authorized and directed to sign any articles on behalf of the Corporation.

Notwithstanding any provision to the contrary contained in the by-laws of the Corporation, the Board may at any time or times direct the manner in which and the person or persons by whom any particular deed, transfer, assignment, contract or other document, or any class of deeds, transfers, assignments, contracts or other documents, shall be signed.

### **37. AGENTS AND ATTORNEYS**

The directors shall have power from time to time to appoint agents or attorneys for the Corporation in or out of Canada with such powers (including the power to sub-delegate) of management, administration or otherwise as the directors may specify.

## **SHARES**

### **38. SHARE CERTIFICATES**

- (a) Every shareholder is entitled, at his option, to a share certificate or a non-transferable written acknowledgement of his right to obtain a share certificate from the Corporation in respect of the shares of the Corporation held by him, but the Corporation is not bound to issue more than one share certificate in respect of a share or shares held jointly by several persons, and delivery of a share certificate to one of several joint shareholders is sufficient delivery to all.
- (b) A share certificate shall be manually signed by at least one director or officer of the Corporation or by or on behalf of a registrar, transfer agent, branch transfer agent or other authenticating agent of the Corporation.
- (c) Notwithstanding the foregoing, a fractional share certificate need not be manually signed.
- (d) The Corporation may charge a fee in accordance with the Act for a share certificate issued in respect of a transfer.
- (e) Unless otherwise determined by the directors, share certificates shall be signed by the chairman of the Board, the president, or a vice-president or a director and by the secretary or an assistant secretary and need not be under the corporate seal and certificates for shares in respect of which a transfer agent and/or registrar has been appointed shall not be valid unless countersigned on behalf of such transfer agent and/or registrar.

- (f) If a share certificate contains a printed or mechanically reproduced signature of a person, the Corporation may issue the share certificate, notwithstanding that the person has ceased to be a director or an officer of the Corporation, and the share certificate is as valid as if he were a director or an officer at the date of its issue.

**39. REPLACEMENT OF SHARE CERTIFICATES**

Where the registered holder of a share certificate claims that the share certificate has been lost, apparently destroyed or wrongfully taken, the Corporation shall issue a new share certificate in place of the original share certificate if the owner:

- (a) so requests before the Corporation has notice that the share certificate has been acquired by a *bona fide* purchaser;
- (b) files with the Corporation an indemnity bond sufficient in the Corporation's opinion to protect the Corporation and any transfer agent, registrar or other agent of the Corporation from any loss that it or any of them may suffer by complying with the request to issue a new share certificate; and
- (c) satisfies any other reasonable requirements imposed by the Corporation.

**40. COMMISSIONS**

The directors may authorize the Corporation to pay a reasonable commission to any person in consideration of such person's purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares.

**CORPORATE DISTRIBUTIONS**

**41. DIVIDENDS**

A dividend payable in cash shall be paid by cheque to the order of each registered holder of shares of the class in respect of which such dividend has been declared as at the record date for the determination of shareholders entitled to receive such dividend and delivered to each such holder or mailed by ordinary mail, postage prepaid, to such holder at his last address appearing on the securities register of the Corporation unless such holder otherwise directs in writing. In the case of joint holders the cheque shall, unless such joint holders otherwise direct in writing, be made payable to the order of all of such joint holders and if more than one address appears on the securities register of the Corporation in respect of such joint holding the cheque shall be delivered or mailed to the first address so appearing. The mailing or delivery of such cheque as aforesaid shall satisfy and discharge all liability for the dividend to the extent of the sum represented thereby, unless such cheque be not paid at par in Canadian funds on due presentation at the municipality in which the registered office of the Corporation is situate or at any other place where it is by its terms payable. In the event of non-receipt of any dividend cheque by the person to whom it is mailed or delivered as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount upon being furnished with such indemnity and

evidence of non-receipt as the Board may from time to time prescribe, whether generally or in any particular case.

**42. JOINT SHAREHOLDERS**

If two or more persons are registered as joint holders of any share, any one of such persons may give effectual receipts for the certificates issued in respect thereof and for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.

**43. UNCLAIMED DIVIDENDS**

Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

**NOTICE**

**44. METHOD OF GIVING**

A notice or document required by the Act, the regulations, the articles or the by-laws to be sent to a shareholder or director of the Corporation may be sent by prepaid mail addressed to, or may be delivered personally to:

- (a) the shareholder at his latest address as shown in the records of the Corporation or its transfer agent; and
- (b) the director at his latest address as shown in the records of the Corporation or in the most recent notice filed under the *Corporations Information Act*, whichever is the more current.
- (c) A notice or document if mailed to a shareholder or director of the Corporation shall be deemed to have been received on the fifth day after mailing. If the Corporation sends a notice or document to a shareholder in accordance with this paragraph and the notice or document is returned on three consecutive occasions because the shareholder cannot be found, the Corporation is not required to send any further notices or documents to the shareholder until the shareholder informs the Corporation in writing of the shareholder's new address.

**45. WAIVER OF NOTICE**

Where a notice or document is required by the Act or the regulations or by any by-law to be sent, the notice may be waived or the time for the notice may be waived or abridged at any time with the consent in writing of the person entitled thereto. Attendance of any director at a meeting of the directors or of any shareholder at a meeting of shareholders is a waiver of notice of such meeting, except where he, she or it attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

**46. OMISSIONS AND ERRORS**

The accidental omission to give any notice to any shareholder, director, officer or auditor or the non-receipt of any notice by any shareholder, director, officer or auditor or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any shareholders or directors meeting held pursuant or otherwise founded thereon.

**47. NOTICE TO JOINT SHAREHOLDERS**

All notices with respect to any shares registered in more than one name may, if more than one address appears on the books of the Corporation in respect to such joint holding, be given to such joint shareholders at the first address so appearing, and notice so given shall be sufficient notice to all the holders of such shares.

**48. PERSONS ENTITLED BY DEATH OR OPERATION OF LAW**

Every person who, by operation of law, transfer, death of a shareholder or by any other means whatsoever, becomes entitled to any share or shares shall be bound by every notice in respect of such share or shares which is duly given to the person from whom he derived his title to such share or shares until such time as his name and address are entered on the books of the Corporation.

**49. PROOF OF SERVICE**

A certificate of the secretary or other duly authorized officer of the Corporation, or of any agent of the Corporation, as to facts in relation to the mailing or delivery or sending of any notice or document to any shareholder or director of the Corporation or to any other person or publication of any such notice or document, shall be conclusive evidence thereof and shall be binding on every shareholder or director or other person, as the case may be.

**50. SIGNATURE OF NOTICE**

The signature of any notice to be given by the Corporation may be written or printed or partly written and partly printed.

**EFFECT OF BY-LAW**

**51. REPEAL OF PRIOR BY-LAWS**

By-law No.1 and By-law No.2 of the Corporation are hereby repealed.

**52. EFFECTIVE DATE**

This by-law shall be effective upon the unanimous approval of the shareholders of the Corporation at a special meeting held on the 24th day of February, 2005.

**MADE** by the Board the 8<sup>th</sup> day December, 2004.

*David Aiello*

---

**President – David Aiello (signed)**

*John L. Smith*

---

**Secretary – John L. Smith (signed)**

**CONFIRMED** by the Shareholders in accordance with the *Business Corporations Act* (Ontario) the ● day of ●, 200●.

---

**Secretary – John L. Smith**

**SCHEDULE “D”**  
**AMENDED AND RESTATED SHARE EXCHANGE AGREEMENT**

**DATED** as of the 15th day of December, 2004.

BETWEEN

**DAVID AIELLO**

- and -

**MATTHEW REITER**

- and -

**CARMA FINANCIAL SERVICES CORPORATION**

---

**AMENDED AND RESTATED SHARE EXCHANGE AGREEMENT**

---

Fraser Milner Casgrain LLP  
1 First Canadian Place  
100 King Street West  
Toronto, Ontario  
M5X 1B2

## **TABLE OF CONTENTS**

### **ARTICLE 1 INTERPRETATION**

1.1	Definitions.....	2
1.2	Recitals.....	10
1.3	Accounting Principles.....	10
1.4	Governing Law; Attornment.....	10
1.5	Entire Agreement; Amendment .....	10
1.6	Calculation of Time .....	10
1.7	Performance on Holidays.....	11
1.8	Waiver of Rights.....	11
1.9	Knowledge .....	11
1.10	Tender .....	11
1.11	Severability .....	11
1.12	Conflict .....	11
1.13	Consents and Approvals .....	12
1.14	Remedies Cumulative .....	12
1.15	Additional Rules of Interpretation .....	12
1.16	Schedules and Exhibits .....	13

### **ARTICLE 2 PURCHASE AND SALE OF SHARES**

2.1	Purchase and Sale .....	13
2.2	Amount of Purchase Price .....	13
2.3	Estimated Purchase Price.....	14
2.4	Preparation of Closing Balance Sheet.....	14
2.5	Payment of Purchase Price and Minority Share Purchase Price.....	14
2.6	Delivery of Share Certificates.....	14
2.7	Place of Closing .....	15
2.8	Extension of Closing Date .....	15
2.9	Termination.....	15

### **ARTICLE 3 REPRESENTATIONS AND WARRANTIES**

3.1	Representations and Warranties of the Vendor .....	15
3.2	Representations and Warranties of the Purchaser.....	26
3.3	Representations and Warranties of the Minority Vendor .....	36
3.4	Commission .....	36
3.5	Non-Waiver.....	37
3.6	Survival of Representations and Warranties of the Vendor and Minority Vendor.....	37
3.7	Survival of Representations and Warranties of the Purchaser.....	38

**ARTICLE 4**  
**COVENANTS OF THE PARTIES**

4.1	Covenants of the Vendor .....	38
4.2	Covenants of the Purchaser.....	41
4.3	Mutual Covenants .....	45

**ARTICLE 5**  
**CONDITIONS OF CLOSING**

5.1	Mutual Conditions .....	46
5.2	Conditions for the Benefit of the Purchaser.....	47
5.3	Conditions for the Benefit of the Vendor and the Minority Vendor.....	49
5.4	Waiver.....	51
5.5	Failure to Satisfy Conditions .....	51
5.6	Damage or Expropriation.....	52

**ARTICLE 6**  
**INDEMNIFICATION**

6.1	Indemnification by Vendor.....	52
6.2	Indemnification by Minority Vendor.....	53
6.3	Indemnification by the Purchaser .....	54
6.4	Agency for Representatives .....	54
6.5	Notice of Third Party Claims.....	54
6.6	Defence of Third Party Claims .....	54
6.7	Assistance for Third Party Claims .....	55
6.8	Settlement of Third Party Claims .....	55
6.9	Direct Claims .....	55
6.10	Failure to Give Timely Notice .....	56
6.11	Reductions and Subrogation .....	56
6.12	Payment and Interest.....	56
6.13	Limitation.....	56
6.14	Additional Rules and Procedures.....	57

**ARTICLE 7**  
**MISCELLANEOUS**

7.1	Further Assurances.....	58
7.2	Public Announcements .....	58
7.3	Notices .....	58
7.4	Time of the Essence.....	60
7.5	Costs and Expenses.....	60
7.6	Effect of Closing .....	60
7.7	Counterparts .....	60
7.8	Assignment .....	60
7.9	Parties in Interest.....	60
7.10	Third Parties.....	61

**THIS AGREEMENT** dated as of the 15th day of December, 2004

**B E T W E E N :**

**DAVID AIELLO**, of the City of Toronto in the Province  
of Ontario,

(the “**Vendor**”)

**OF THE FIRST PART**

- and -

**MATTHEW REITER**, of the City of Burlington in the  
Province of Ontario,

(the “**Minority Vendor**”)

**OF THE SECOND PART**

- and -

**CARMA FINANCIAL SERVICES CORPORATION**, a  
corporation incorporated under the laws of Ontario

(the “**Purchaser**”)

**OF THE THIRD PART**

**RECITALS:**

1. The Vendor is the registered and beneficial owner of all of the issued and outstanding shares of Synergex Group Inc., a corporation incorporated under the laws of Ontario (the “**Corporation**”);
2. The Corporation is the registered and beneficial owner of all of the issued and outstanding shares of Hyperactive Entertainment Inc. (“**Subco 1**”), Synergex Retail Services Inc. (“**Subco 2**”), Synergex Logistics Corp. (“**Subco 3**”), Shipitnow.com Corp. (“**Subco 4**”), Synergex Solutions Inc. (“**Subco 5**”), Ditan/Synergex Canada Inc. (“**Subco 6**”) and Synergex Technology Management Inc. (“**Subco 7**”) except the 15,000 common shares of Subco 3 owned by the Minority Vendor (the “**Minority Shares**”);
3. The Corporation is the registered and beneficial owner of 85,000 common shares of Subco 3, being 85% of the issued and outstanding shares of Subco 3, and the Minority Vendor is the registered and beneficial owner of 15,000 common shares of Subco 3, being all of the remaining issued and outstanding shares of Subco 3 (the “**Minority Shares**”); and
4. The Purchaser wishes to purchase and the Vendor wishes to sell all of the issued and outstanding shares of the Corporation for the purchase price and upon the terms and conditions

hereinafter set forth and the Minority Vendor wishes to sell all of the Minority Shares for the purchase price and upon the terms and conditions hereinafter set forth;

5. The Parties entered into a Share Exchange Agreement (the “**First Agreement**”) dated October 22, 2004;

6. The Parties wish to extend the outside closing date of the First Agreement.

**NOW THEREFORE** in consideration of the premises and mutual agreements hereinafter set out and of other consideration (the receipt and sufficiency of which are acknowledged by each Party), the Parties agree as follows:

## **ARTICLE 1**

### **INTERPRETATION**

#### **1.1 Definitions**

In this Agreement:

“**Accounting Records**” means all of the books of account, accounting records and other financial data and information, of the Corporation and the Subsidiaries and includes all records, data and information stored electronically, digitally or on computer related media;

“**Adjustment Date**” means the third Business Day after the Closing Working Capital is finally determined in accordance with Section 2.4;

“**Affiliate**” means, with respect to any person, any other person that directly or indirectly controls, is controlled by, or is under common control with that other person. For purposes of this definition, a person “controls” another person if that person directly or indirectly possesses the power to direct or cause the direction of the management and policies of that other person, whether through ownership of securities, by contract or otherwise and “controlled by” and “under common control with” have similar meanings;

“**Agreement**” means this share exchange agreement and all Schedules and Exhibits attached hereto;

“**Applicable Law**” means, in respect of any person, property, transaction or event, any domestic or foreign statute, law (including the common law), ordinance, rule, regulation, treaty, restriction, regulatory policy, standard, code or guideline, by-law (zoning or otherwise) or Order that applies in whole or in part to such person, property, transaction or event;

“**Articles**” means, with respect to any body corporate, the original or restated articles of incorporation, articles of amendment, articles of amalgamation, articles of arrangement, articles of reorganization, articles of revival, letters patent, memorandum of agreement, special act or statute and any other instrument or constating document by or pursuant to which the body corporate is incorporated or comes into existence;

**“Articles of Amendment”** means the proposed articles of amendment in the form attached hereto as Exhibit D, to be filed by the Purchaser for the purpose of creating the Series A Preferred Shares;

**“Books and Records”** means the Accounting Records and all books, records, books of account, sales and purchase records, lists of suppliers and customers, credit and pricing information, personnel and payroll records, production, inventory and accounts receivable data, business, engineering and consulting reports and research and development information and plans and projections of or relating to the Corporation, the Subsidiaries or the Business of the Corporation and all other documents, files, records, correspondence, and other data and information, financial or otherwise, which are relevant to the Corporation, the Subsidiaries or the Business of the Corporation, including all data and information stored electronically, digitally or on computer related media;

**“Business”** means: (a) with respect to the Corporation, the business carried on by the Corporation and the Subsidiaries consisting of logistics services, digital art and linguistic translation services, administrative services, distribution services, and technology management services in Canada; and (b) with respect to the Purchaser, the business carried on by the Purchaser and the Purchaser Subsidiaries consisting of outsourced accounts receivable management, third-party collection of accounts receivable, and credit bureau activities in Canada and the United States;

**“Business Day”** means a day other than a Saturday, Sunday or any other day on which the principal chartered banks located in the City of Toronto are not open for the transaction of domestic business during normal banking hours;

**“Claim”** means any act, omission or statement of facts, and any Legal Proceeding, assessment, judgment, settlement or compromise relating thereto, which may give rise to a right to indemnification under Section 6.1 or 6.2;

**“Closing”** means the completion of the sale to and purchase by the Purchaser of the Purchased Shares and the completion of all other transactions contemplated by this Agreement that are to occur contemporaneously therewith;

**“Closing Balance Sheet”** means the balance sheet of the Corporation and the Subsidiaries on a consolidated basis as at the Closing Date, prepared in accordance with generally accepted accounting principles, consistently applied, as finally determined in accordance with the provisions of Section 2.4;

**“Closing Date”** means the date that is the tenth Business Day following the Purchaser’s Meeting or such earlier or later date as may be agreed upon by the Parties;

**“Closing Document”** means any document or instrument delivered at or subsequent to the Closing as provided in or pursuant to this Agreement;

**“Closing Time”** means 12:00 p.m. Toronto time on the Closing Date or such other time on the Closing Date as the Purchaser and the Vendor agree that the Closing shall take place in accordance with the provisions of Section 2.8;

**“Closing Working Capital”** means the amount equal to the total of the Corporation’s consolidated current assets less the total of its consolidated current liabilities as shown on the Closing Balance Sheet and, for these purposes, “current assets” and “current liabilities” shall consist of assets and liabilities so classified on the Closing Balance Sheet;

**“Consent”** means any consent, approval, permit, waiver, ruling, exemption, or acknowledgement from any person (other than the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary) under the terms of any Contract, Lease, or Equipment Lease issued to or for the benefit of the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as the case may be, which is provided for or required pursuant to the terms of such Contract, Lease or Equipment Lease in connection with the sale of the Purchased Shares and the Minority Shares to the Purchaser and the completion of the other transactions contemplated herein or which is otherwise necessary to permit the Parties to perform their obligations or is otherwise required to permit the consummation of the transactions as contemplated herein;

**“Contracts”** means all contracts, agreements, instruments and other legally binding commitments or arrangements, written or oral;

**“Corporation”** means Synergesx Group Inc.;

**“Debt Instrument”** means any bond, debenture, promissory note or other instrument evidencing indebtedness for borrowed money or other liability;

**“Director”** means the Director appointed pursuant to section 278 of the *Business Corporations Act* (Ontario);

**“Direct Claim”** means any Claim asserted against an Indemnitor by an Indemnitee which does not result from a Third Party Claim;

**“Disclosure Letter”** means the letter entitled “Vendor Disclosure Letter” dated October 22, 2004 from the Vendor to the Purchaser or the letter of such date entitled “Purchaser Disclosure Letter” from the Purchaser to the Vendor, as applicable;

**“Employee”** means an individual who is employed by the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, whether on a full-time or part-time basis;

**“Encumbrance”** means any mortgage, charge, easement, encroachment, lien, adverse claim, restrictive covenant, assignment by way of security, security interest of any nature, servitude, pledge, hypothecation, security agreement, title retention agreement, right of occupation, option or privilege or any Contract to create any of the foregoing;

**“Equipment Leases”** means all leases of personal property to which the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, is a party or under which it has rights or obligations;

**“Estimated Purchase Price”** means the amount estimated as such in Section 2.3;

**“Financial Statements”** means: (a) with respect to the Corporation, the consolidated balance sheets, audited consolidated statements of income, audited consolidated statements of

deficits and audited consolidated statements of cash flows for the financial years ended December 31, 2002 and 2003, audited by Daurio & Franklin LLP, Chartered Accountants attached hereto as Schedule 1.1; and (b) with respect to the Purchaser, the audited consolidated balance sheets, audited consolidated statements of operations, audited consolidated statements of deficits and audited consolidated statements of cash flows for the financial years ended May 31, 2002 and May 31, 2003, audited by Mintz & Partners LLP and the May 31, 2004 audited financial statements audited by BDO Dunwoody LLP;

**“Governmental Authority”** means any domestic or foreign government, whether federal, provincial, state, territorial or municipal; and any governmental agency, ministry, department, Tribunal, commission, bureau, board or other instrumentality exercising or purporting to exercise legislative, judicial, regulatory or administrative functions of, or pertaining to, government;

**“Guarantee”** means any agreement, contract or commitment providing for the guarantee, indemnification, assumption or endorsement or any like commitment with respect to the obligations, liabilities (contingent or otherwise) or indebtedness of any person;

**“Income Tax Act”** means, collectively, the *Income Tax Act*, R.S.C. 1985, 5th Supplement, the *Income Tax Application Rules*, R.S.C. 1985, 5th Supplement, and the *Income Tax Regulations*, in each case as amended to the date hereof;

**“Indemnitee”** means any Party and its Representatives entitled to indemnification under this Agreement;

**“Indemnitor”** means any Party obligated to provide indemnification under this Agreement;

**“Indemnity Payment”** means any amount of a Loss required to be paid pursuant to Section 6.1 or 6.2;

**“Intellectual and Industrial Property Rights”** means:

- (a) any and all proprietary rights provided under:
  - (i) patent law;
  - (ii) copyright law;
  - (iii) trademark law;
  - (iv) design patent or industrial design law;
  - (v) semiconductor chip or mask work law;
  - (vi) trade secret law; or
  - (vii) any other statutory provision or common law principle applicable to rights to intellectual property which may provide a right in either:

- A. ideas, formulae, algorithms, concepts, inventions, technologies, software, data compilations, drawings, specifications, confidential business information, procedures or know-how generally, including without limitation, trade secrets; or
  - B. the expression or use of such ideas, formulae, algorithms, concepts, inventions, technologies, software, data compilations, drawings, specifications, confidential business information, procedures or know-how; and
- (b) any and all applications, registrations, licenses, sub-licenses, franchises, agreements or any other evidence of a right in any of the foregoing;

**“Intellectual Property”** means trade-marks, trade names, business names, patents, inventions, know-how, copyrights, service marks, brand marks, industrial designs, trade secrets, proprietary manufacturing information, equipment and parts lists and descriptions, instruction manuals, inventors’ notes, research data, formulae, processes and technology domain names;

**“Interested Person”** means any present or former officer, director, shareholder or employee of the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, or any person with which the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, or any of the foregoing does not deal at arm’s length within the meaning of the *Tax Act*;

**“Interim Period”** means the period from and including the time of execution of this Agreement to and including the Closing Time;

**“Leased Property”** means all the right, title and interest of the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, in and to the subject matter (whether realty or personality) of Leases and Equipment Leases;

**“Leases”** means the real property leases and other rights of occupancy relating to real property to which the Corporation, a Subsidiary, the Purchaser or a Purchaser Subsidiary, as applicable, is a party or under which it has rights, whether as lessor or lessee;

**“Legal Proceeding”** means any litigation, action, suit, investigation, hearing, claim, complaint, grievance, arbitration proceeding or other proceeding, and includes any appeal or review and any application for same;

**“License”** means any license, permit, approval, authorization, certificate, directive, order, variance, registration, right, privilege, concession or franchise issued, granted, conferred or otherwise created by any Governmental Authority;

**“Licensed Intellectual Property”** has the meaning ascribed thereto in Section 3.1.32;

**“Loss”** means any and all loss, liability, damage, cost, expense, charge, fine, penalty or assessment, resulting from or arising out of any Claim, including the costs and expenses of any Legal Proceeding, assessment, judgment, settlement or compromise relating thereto and all

interest, fines and penalties and reasonable legal fees and expenses incurred in connection therewith;

**“Material Adverse Effect”** means any state of facts, which, either individually or in the aggregate, are, or would reasonably be expected to be, material and adverse to the business, operations, results of operations, prospects, assets, liabilities or financial condition of the Corporation or the Purchaser, as the case may be, on a consolidated basis, other than any change, effect, event or occurrence relating to securities markets in general;

**“Material Contracts”** shall have the meaning ascribed thereto in Section 3.1.25;

**“Material Licenses”** means all Licenses disclosed in the Vendor Disclosure Letter or the Purchaser Disclosure Letter, as appropriate;

**“Minority Shareholders”** means the Purchaser’s shareholders, except the Vendor and other shareholders whose votes are to be excluded for purposes of compliance with Part 8 of Rule 61-501 of the Ontario Securities Commission;

**“Minority Share Purchase Price”** means the price payable by the Purchaser to the Minority Vendor for the Minority Shares provided for in Section 2.2;

**“Order”** means any order, directive, judgment, decree, award or writ of any Tribunal;

**“Outside Closing Date”** means May 31, 2005;

**“Owned Intellectual Property”** has the meaning ascribed thereto in Section 3.1.32;

**“Parties”** means the Vendor, the Minority Vendor and the Purchaser and **“Party”** means any one of them;

**“Permitted Encumbrances”** means:

- (a) inchoate or statutory liens for Taxes not at the time overdue but only if the amount thereof at the Closing Date is taken into account as a current liability in calculating the Closing Working Capital and inchoate or statutory liens for overdue Taxes the validity of which the Corporation or a Subsidiary is contesting in good faith but only for so long as such contestation effectively postpones enforcement of any such liens or Taxes, and only if the amount of such overdue Taxes at the Closing Date is taken into account as a current liability in calculating the Closing Working Capital;
- (b) statutory liens incurred or deposits made in the ordinary course of business of the Corporation or a Subsidiary in connection with worker’s compensation, employment insurance, employer health tax, Canada Pension Plan and similar legislation, but only to the extent that each such statutory lien or deposit relates to amounts not yet due;
- (c) liens and privileges arising out of any judgment with respect to which the Corporation or a Subsidiary intends to prosecute an appeal or proceedings for review but only for so long as there is a stay of execution pending the

determination of such appeal or proceedings for review, and only if the amount thereof at the Closing Date is taken into account as a current liability in calculating the Closing Working Capital;

- (d) security given by the Corporation or a Subsidiary to a public utility or any Governmental Authority when required in the ordinary course of business of the Corporation or the Subsidiary; and
- (e) undetermined or inchoate construction or repair or storage liens arising in the ordinary course of the business of the Corporation or a Subsidiary, a claim for which has not been filed or registered pursuant to law and for which notice in writing has not been given to the Corporation or the Subsidiary;

**“Prime Rate”** for any day means the rate of interest expressed as a rate per annum that the HSBC Bank Canada establishes at its head office in Toronto, Ontario as the reference rate of interest that it will charge on that day for Canadian dollar demand loans to its customers in Canada and which it at present refers to as its prime rate;

**“Proxy Circular”** means the management information circular to be prepared by the Purchaser in respect of the Purchaser’s Meeting;

**“Purchase Price”** means the price payable by the Purchaser to the Vendor for the Purchased Shares provided for in Section 2.2;

**“Purchased Shares”** means the Synergex Common Shares and the Synergex Preference Shares;

**“Purchaser Common Shares”** means common shares in the capital of the Purchaser;

**“Purchaser Material Contracts”** shall have the meaning ascribed thereto in Section 3.2.23;

**“Purchaser Subsidiaries”** means Canada Bonded Attorney and Legal Directory Ltd., Lumbermen’s Credit Bureau Limited and Careers in Finance Ltd. and **“Purchaser Subsidiary”** means any one of them;

**“Purchaser’s Advisors”** means the directors, officers, employees, auditors, legal counsel and fiscal and tax advisors of the Purchaser and any other person authorized in writing by the Purchaser to represent the Purchaser for purposes of Subsection 4.1.1;

**“Purchaser’s Auditors”** means BDO Dunwoody LLP;

**“Purchaser’s Meeting”** means the special meeting, including any adjournments or postponements thereof, of the Purchaser’s Shareholders to be held, among other things, to consider and, if deemed advisable, to approve the transactions contemplated by this Agreement;

**“Purchaser’s Shareholders”** means, at any time, the holders of Purchaser Common Shares at such time;

**“Regulatory Approval”** means any approval, consent, ruling, authorization, notice, permit or acknowledgement that may be required from any person by Applicable Law, the terms of any License or the conditions of any Order which is required pursuant to such Applicable Law, License or Order in connection with the sale of the Purchased Shares and the Minority Shares to the Purchaser and the completion of the other transactions contemplated herein or which is otherwise necessary to permit the Parties to perform their obligations or is otherwise required to permit the consummation of the transactions as contemplated herein;

**“Representative”** means, in respect of an Indemnitee, each director, officer, employee, agent, solicitor, accountant, professional advisor and other representative of that Indemnitee and, in respect of the Purchaser, also includes the Corporation;

**“Securities Authorities”** means the Ontario Securities Commission and the other relevant securities regulatory authorities in the provinces and territories of Canada, collectively;

**“Series A Preferred Shares”** means the Series A preferred shares of the Purchaser, to be issued to the Vendor in accordance with the provisions of Section 2.5, and having the attributes set out in the Articles of Amendment;

**“Subsidiaries”** means Subco 1, Subco 2, Subco 3, Subco 4, Subco 5, Subco 6 and Subco 7 and **“Subsidiary”** means any one of them;

**“subsidiary”** has the meaning ascribed thereto in the *Business Corporations Act* (Ontario);

**“Synergex Common Shares”** means the 200 outstanding common shares of the Corporation;

**“Synergex Preference Shares”** means the 5,500,000 outstanding Class A preference shares of the Corporation;

**“Tax Legislation”** means, collectively, the Income Tax Act and all federal, provincial, territorial, municipal, foreign, or other statutes imposing a tax, including all treaties, conventions, rules, regulations, orders, and decrees of any jurisdiction;

**“Tax Returns”** means all reports, elections, returns, and other documents required to be filed under the provisions of any Tax Legislation and any tax forms required to be filed, whether in connection with a Tax Return or not, under any provisions of any applicable Tax Legislation;

**“Tax”** or **“Taxes”** means all taxes, assessments, charges, dues, duties, rates, fees, imposts, levies and similar charges of any kind lawfully levied, assessed or imposed by any tax authority under any applicable Tax Legislation, including Canadian federal, provincial, territorial, municipal and local, foreign or other income, capital, goods and services, sales, use, consumption, excise, value-added, business, real property, personal property, transfer, franchise, withholding, payroll, or employer health taxes, customs, import, anti-dumping or countervailing duties, Canada Pension Plan contributions, employment insurance premiums, and provincial workers’ compensation payments, including any interest, penalties and fines associated therewith;

**“Third Party Claim”** means any Claim asserted against an Indemnitee that is paid or payable to, or claimed by, any person who is not an Indemnitee; and

**“Tribunal”** means any court (including a court of equity), arbitrator or arbitration panel and any other Governmental Authority, stock exchange, professional or business organization or association or other body exercising adjudicative, regulatory, judicial or quasi-judicial powers.

#### **1.2 Recitals**

The Parties acknowledge and declare that the information in the recitals in this Agreement relating to them (and in the case of the Vendor, relating to the Corporation and the Subsidiaries) is true and correct.

#### **1.3 Accounting Principles**

Wherever in this Agreement reference is made to generally accepted accounting principles or GAAP, such reference shall be deemed to be to the generally accepted accounting principles as in effect from time to time, including those set forth in the Handbook of the Canadian Institute of Chartered Accountants, approved by the Canadian Institute of Chartered Accountants, or any successor entity thereto, applicable as at the date on which such principles are to be applied or on which any calculation or determination is required to be made in accordance with generally accepted accounting principles.

#### **1.4 Governing Law; Attornment**

This Agreement shall be construed, interpreted and enforced in accordance with, and the rights of the Parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein (excluding any conflict of law rule or principle of such laws that might refer such interpretation or enforcement to the laws of another jurisdiction). Each Party irrevocably submits to the non-exclusive jurisdiction of the courts of the Province of Ontario with respect to any matter arising hereunder or relating hereto.

#### **1.5 Entire Agreement; Amendment**

This Agreement constitutes the entire agreement between the Parties with respect to the transactions herein contemplated and cancels and supersedes any prior understandings, agreements, negotiations and discussions, written or oral, between the Parties with respect thereto (including the letter of intent and term sheet between the Purchaser and the Vendor dated May 27, 2004). There are no representations, warranties, terms, conditions, undertakings or collateral agreements or understandings, express or implied, between the Parties other than those expressly set forth in this Agreement or in any Closing Document. This Agreement may not be amended, supplemented or otherwise modified in any respect except by written instrument executed by the Parties.

#### **1.6 Calculation of Time**

In this Agreement, a period of days shall be deemed to begin on the first day after the event which began the period and to end at 5:00 p.m. (Toronto time) on the last day of the period. If any period of time is to expire hereunder on any day that is not a Business Day, the

period shall be deemed to expire at 5:00 p.m. (Toronto time) on the next succeeding Business Day.

#### **1.7 Performance on Holidays**

If any act (including the giving of notice) is otherwise required by the terms hereof to be performed on a day which is not a Business Day, such act shall be valid if performed on the next succeeding Business Day.

#### **1.8 Waiver of Rights**

Any waiver of, or consent to depart from, the requirements of any provision of this Agreement shall be effective only if it is in writing and signed by the Party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right. No single or partial exercise of any such right shall preclude any other or further exercise of such right or the exercise of any other right.

#### **1.9 Knowledge**

Where any representation, warranty or other statement in this Agreement is expressed to be made by a Party to his or its knowledge or is otherwise expressed to be limited in scope to matters known to a Party or the Corporation or of which a Party or the Corporation is aware, it shall mean such knowledge as is actually known to, or which would have or should have come to the attention of, the Vendor or the officers or employees of the Purchaser, the Corporation, a Subsidiary or a Purchaser Subsidiary, as the case may be, who have overall responsibility for or knowledge of the matters relevant to such statement and each Party hereby confirms that it has made appropriate inquiries of all such officers and employees.

#### **1.10 Tender**

Any tender of documents or money hereunder may be made upon the Parties or their respective counsel and money shall be tendered by official bank draft drawn upon a Canadian chartered bank or by negotiable cheque payable in Canadian funds and certified by a Canadian bank listed in Schedule 1 to the *Bank Act* (Canada).

#### **1.11 Severability**

Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

#### **1.12 Conflict**

In the event of any conflict or inconsistency between the terms and conditions in the body of this Agreement and those in any Schedule (including any agreement entered into pursuant to this Agreement), the terms and conditions in the body of this Agreement shall govern and take

precedence and the Parties shall take such steps as may be required or desirable to conform the conflicting or inconsistent provisions thereof to this Agreement.

#### **1.13    Consents and Approvals**

Unless otherwise specified, where the consent or approval of a Party is contemplated or required by the terms of this Agreement, that Party shall not unreasonably delay or withhold the giving of such consent or approval after a request therefor has been made by the other Party.

#### **1.14    Remedies Cumulative**

The rights, remedies, powers and privileges herein provided to a Party are cumulative and in addition to and not exclusive of or in substitution for any rights, remedies, powers and privileges otherwise available to that Party.

#### **1.15    Additional Rules of Interpretation**

- (a) In this Agreement, unless the context requires otherwise, words imparting one gender include all genders and words in the singular include the plural and vice versa.
- (b) The division of this Agreement into Articles, Sections, Subsections, Schedules, Exhibits and other subdivisions, the inclusion of headings and the provision of a table of contents are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The headings in this Agreement are not intended to be full or precise descriptions of the text to which they refer.
- (c) Unless something in the subject matter or context is inconsistent therewith, references herein to an Article, Section, Subsection, paragraph, clause, Schedule or Exhibit are to the applicable article, section, subsection, paragraph, clause, Schedule or Exhibit of this Agreement.
- (d) Wherever the words “include”, “includes” or “including” are used in this Agreement or in any Closing Document, they shall be deemed to be followed by the words “without limitation” and the words following “include”, “includes” or “including” shall not be considered to set forth an exhaustive list.
- (e) The words “hereof”, “herein”, “hereto”, “hereunder”, “hereby” and similar expressions shall be construed as referring to this Agreement in its entirety and not to any particular section or portion of it.
- (f) Unless otherwise specified, all dollar amounts in this Agreement, including the symbol “\$”, refer to Canadian currency.
- (g) Unless otherwise indicated, all references in this Agreement to any statute include the regulations thereunder and all applicable guidelines, bulletins or policies made in connection therewith and which are legally binding, in each case as amended, re-enacted, consolidated or replaced from time to time and in the case of any such amendment, re-enactment, consolidation or replacement, reference herein to a particular provision shall be read as referring to such amended, re-enacted, consolidated or replaced provision.

- (h) All references herein to any agreement (including this Agreement), document or instrument mean such agreement, document or instrument as amended, supplemented, modified, varied, restated or replaced from time to time in accordance with the terms thereof and, unless otherwise specified therein, includes all schedules and exhibits attached thereto.
- (i) Unless the context otherwise requires, references in this Agreement to a “person” are to be broadly interpreted and shall include an individual (whether acting as an executor, administrator, legal representative or otherwise), body corporate, unlimited liability company, partnership, limited liability partnership, joint venture, trust, unincorporated association, unincorporated syndicate, any Governmental Authority and any other legal or business entity.
- (j) The term “ordinary course” means any transaction which constitutes an ordinary day-to-day business activity, conducted in a commercially reasonable and businesslike manner, having no unusual or special features, and, in the case of the Corporation, the Purchaser, a Subsidiary or a Purchaser Subsidiary, consistent with past practice and, in the case of any other person, being such as a person of similar nature and size and engaged in a similar business might reasonably be expected to carry out from time to time.
- (k) Unless otherwise defined herein, words or abbreviations which have well-known trade meanings are used herein with those meanings.

#### **1.16 Schedules and Exhibits**

The following are the Schedules and Exhibits attached to and incorporated in this Agreement by reference and deemed to be a part hereof:

Schedule 1.1	-	Financial Statements
Exhibit A	-	Form of Articles of Amendment

## **ARTICLE 2 PURCHASE AND SALE OF SHARES**

#### **2.1 Purchase and Sale**

Subject to the terms and conditions of this Agreement: (i) the Vendor agrees to sell, transfer and assign the Purchased Shares to the Purchaser; (ii) the Minority Vendor agrees to sell, transfer and assign the Minority Shares to the Purchaser; and (iii) the Purchaser agrees to purchase the Purchased Shares from the Vendor and the Minority Shares from the Minority Vendor.

#### **2.2 Amount of Purchase Price**

The aggregate purchase price for the Purchased Shares shall be \$14,246,099.91, plus the amount of the Closing Working Capital, rounded down to the nearest dollar (collectively, the “Purchase Price”). The aggregate purchase price for the Minority Shares shall be \$153,900 (the “Minority Share Purchase Price”).

### **2.3      Estimated Purchase Price**

As soon as practicable prior to the Closing Time, and in any event no less than three Business Days prior to the Closing Date, the Vendor, acting reasonably, shall provide to the Purchaser an estimate of the Closing Working Capital, such estimate to be based on the most recent internally prepared consolidated balance sheet of the Corporation and calculated as nearly as possible in the manner in which the Closing Working Capital is to be determined pursuant to the provisions of Section 2.4. The sum of the estimate of the Closing Working Capital, rounded down to the nearest dollar, plus \$14,246,099.91 shall be the “**Estimated Purchase Price**”.

### **2.4      Preparation of Closing Balance Sheet**

Promptly, and in any event within one (1) calendar month, after the Closing Time, the Vendor and the Purchaser shall prepare, in accordance with generally accepted accounting principles, consistently applied, the Closing Balance Sheet of the Corporation as at 12:01 a.m. on the Closing Date and shall determine the Closing Working Capital at that time. The Vendor and the Purchaser shall co-operate in making such determination on or before the 60<sup>th</sup> day following the Closing Date, failing which the Parties shall submit the matter to a single arbitrator in accordance with the *Arbitration Act (Ontario)* whose decision as to Closing Working Capital, to be delivered within 45 days of his or her appointment, shall be final and binding on the Parties.

### **2.5      Payment of Purchase Price and Minority Share Purchase Price**

The Purchaser shall pay the Estimated Purchase Price to the Vendor at the Closing Time by issuing 52,763,333 Purchaser Common Shares and that number of Series A Preferred Shares equal to the Closing Working Capital estimate contemplated in section 2.3 hereof (each Series A Preferred Share being valued at \$1.00). The Purchaser shall pay the Minority Share Purchase Price to the Minority Vendor at the Closing Time by issuing 570,000 Purchaser Common Shares.

On the Adjustment Date the Purchaser shall pay to the Vendor the amount, if any, by which the Purchase Price exceeds the Estimated Purchase Price by issuing the number of Series A Preferred Shares, at a price of \$1.00 per Series A Preferred Share, equal to such amount. In the event that the Estimated Purchase Price exceeds the Purchase Price (rounded down to the nearest dollar), then the appropriate number of Series A Preferred Shares will be repurchased for cancellation by the Purchaser for an aggregate purchase price of \$1.00.

### **2.6      Delivery of Share Certificates**

The Vendor and Minority Vendor shall transfer and deliver to the Purchaser at the Closing Time share certificates representing the Purchased Shares and Minority Shares, as applicable, duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank and the Purchaser shall issue and deliver to the Vendor and Minority Vendor at the Closing Time share certificates representing the Purchaser Common Shares and the Series A Preference Shares representing the Estimated Purchase Price and Minority Share Purchase Price registered in the name of the Vendor and Minority Vendor, as applicable, or in such other name(s) as directed by the Vendor and/or Minority Vendor in writing prior to the Closing Date.

## 2.7 Place of Closing

The Closing shall take place at the Closing Time at the offices of Fraser Milner Casgrain LLP, Suite 4200, 1 First Canadian Place, Toronto, Ontario, or at such other place as may be agreed upon by the Vendor and the Purchaser.

## 2.8 Extension of Closing Date

The Closing Date may be extended by either the Vendor or the Purchaser for two additional thirty day periods in the event that additional time is required to complete due diligence or obtain regulatory approvals or finalize legal documentation, but if the Closing does not occur by the Outside Closing Date, either Party may terminate this Agreement and no costs shall be owing by either Party to the other Party except as provided for herein.

## 2.9 Termination

This Agreement shall terminate on the earlier of:

- (a) the Outside Closing Date, if the Closing does not occur by such date; and
- (b) such date that the Purchaser provides the Vendor with written notice that it does not intend to complete the transactions contemplated in this Agreement. The Purchaser shall immediately advise the Vendor if it does not wish to proceed with the transactions contemplated in this Agreement.

## ARTICLE 3 REPRESENTATIONS AND WARRANTIES

### 3.1 Representations and Warranties of the Vendor

The Vendor represents and warrants to the Purchaser as set out in this Section 3.1 and acknowledges that the Purchaser is relying on such representations and warranties in connection with the transactions contemplated in this Agreement.

#### 3.1.1 Title to Purchased Shares

The Vendor is the registered and beneficial owner of all of the Purchased Shares. The Vendor now has, and on Closing the Purchaser shall acquire, good title to the Purchased Shares, free and clear of all Encumbrances. There are no restrictions of any kind on the transfer of the Purchased Shares except those set out in the Articles of the Corporation. No person has, or has any right capable of becoming, any agreement, option, understanding or commitment for the purchase or other acquisition from the Vendor of any of the Purchased Shares.

#### 3.1.2 No Legal Proceedings Against Vendor

There is no Legal Proceeding in progress, pending, or, to the knowledge of the Vendor, threatened against or affecting the Vendor or affecting the title of the Vendor to any of the Purchased Shares at law or in equity or before or by any Tribunal.

### 3.1.3 Incorporation and Organization of the Corporation and the Subsidiaries

The Corporation is a corporation duly incorporated, organized and subsisting under the laws of Ontario and each Subsidiary is a corporation duly incorporated, organized and subsisting under the laws of its jurisdiction of incorporation. No proceedings have been taken or authorized by the Vendor or the Corporation or any Subsidiary or by any other person with respect to the bankruptcy, insolvency, liquidation, dissolution or winding up of the Corporation or any Subsidiary or with respect to any amalgamation, merger, consolidation, arrangement or reorganization of, or relating to, the Corporation. True and complete copies of the Articles of the Corporation and all by-laws of the Corporation are contained in the minute book of the Corporation made available to the Purchaser and true and complete copies of the Articles and by-laws of each Subsidiary are contained in the minute books of the Subsidiaries made available to the Purchaser. The Articles of the Corporation and each Subsidiary and the by-laws of the Corporation and each Subsidiary constitute all of the Articles and by-laws of the Corporation and the Subsidiaries, respectively, and are complete and correct and are in full force and effect. There are no shareholders' agreements or unanimous shareholders' agreements governing the affairs of the Corporation or any Subsidiary or the relationship, rights and duties of their respective shareholders nor are there any voting trusts, pooling arrangements or other similar agreements with respect to the ownership or voting of any shares of the Corporation or any Subsidiary.

### 3.1.4 Corporate Records

The minute books of the Corporation and each Subsidiary and other corporate records made available to the Purchaser for review have been maintained in accordance with Applicable Law and contain, in all material respects, complete and accurate copies of all by-laws of the Corporation and each Subsidiary and minutes of meetings of, and resolutions passed by, the shareholders, directors and committees of directors since the respective dates of incorporation of the Corporation and each Subsidiary. The share certificate book, register of shareholders, register of transfers and register of directors of the Corporation and each Subsidiary are complete, accurate and current.

### 3.1.5 Qualification of the Corporation and the Subsidiaries to Conduct Business

The Corporation and each Subsidiary has the necessary corporate power, authority and capacity to own or lease and use its property and assets and to carry on the Corporation's Business as now being conducted by it and is registered, licensed or otherwise qualified to carry on the Corporation's Business in each jurisdiction in which the nature of the Corporation's Business as carried on by it or the property or assets owned or leased or used by it makes such qualification necessary. The Corporation and each Subsidiary possesses all Licenses required for the conduct of the Corporation's Business.

### 3.1.6 Authorized and Issued Capital

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preference shares, of which only the Purchased Shares have been validly issued and are outstanding (and such shares are outstanding as fully paid and non-assessable shares). The Corporation is the registered and beneficial owner of all of the issued

shares of each Subsidiary, except the Minority Shares owned by the Minority Vendor, free and clear of any Encumbrance except as previously disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter. No other securities have been issued by any Subsidiary and all of the issued shares of the Subsidiaries have been validly issued and are outstanding as fully paid and non-assessable shares.

### 3.1.7 Investments

The Corporation has no subsidiary other than the Subsidiaries and does not own, directly or indirectly, any shares of any body corporate other than the Subsidiaries nor does it have any equity or ownership interest in any other business or person and has not agreed to acquire any shares or other equity ownership or interest in any other person. Neither the Corporation nor any Subsidiary is subject to any obligation or requirement to provide funds to or to make any investment in any business or person by way of loan, capital contribution or otherwise.

### 3.1.8 No Obligation to Issue Securities

There are no agreements, options, warrants, rights of conversion or other rights pursuant to which the Corporation or any Subsidiary is, or may become, obligated to issue any shares or other securities.

### 3.1.9 Conflicting Instruments

Neither the entering into of this Agreement by the Vendor, nor the entering into of any agreement or other instrument contemplated hereby nor the completion of the transactions herein contemplated nor the performance by the Vendor of its obligations hereunder will: (a) conflict with, or result in the breach or violation of or default under, or cause the acceleration of any obligations of the Corporation or any Subsidiary under, any of the terms and provisions of (i) any Applicable Law, (ii) the Articles of the Corporation or its by-laws or the Articles or by-laws of any Subsidiary or any resolution of the directors (or any committee thereof) or shareholders of the Corporation or any Subsidiary; or (iii) subject to obtaining any Consent or Regulatory Approval which may be required thereunder in connection with the completion of the transactions herein contemplated, and which requirements have been disclosed in this Agreement, any License, Order or agreement, Contract or commitment to which, the Corporation, the Vendor or any Subsidiary is a party or by which any of them is bound; (b) relieve any other party to any Contract, Lease or Equipment Lease of that party's obligations thereunder or enable it to terminate its obligations thereunder; (c) cause the Corporation or a Subsidiary to lose any rights under any Contract, Lease or Equipment Lease; or (d) result in the creation of any Encumbrance on any of the property or assets of the Corporation or a Subsidiary.

### 3.1.10 Regulatory Approvals

Except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, no Regulatory Approval or registration or filing with, notice to, or waiver from any Governmental Authority or other person is required to be obtained or made by the Vendor or the Corporation or any Subsidiary: (a) in connection with the execution, delivery and performance by the Vendor of his obligations under this Agreement or the Closing Documents or the consummation of the transactions contemplated hereby; (b) to avoid the loss of any License relating to the Corporation's Business; or (c) to permit the Corporation or any Subsidiary to carry on the

Corporation's Business after the Closing as the Corporation's Business is currently carried on by the Corporation or the Subsidiary, as the case may be.

### 3.1.11 Books and Records

The Vendor has made available to the Purchaser all Books and Records. All material financial transactions of the Corporation and the Subsidiaries have been accurately recorded in the Accounting Records and the Accounting Records accurately reflect the basis for the financial condition and the revenues, expenses and results of operations of the Corporation and the Subsidiaries as of and to the date hereof. All Books and Records are in the full possession and exclusive control of and are owned exclusively by the Corporation or a Subsidiary and are not dependent upon any computerized or other system or device that is not exclusively owned and controlled by the Corporation or a Subsidiary.

### 3.1.12 Financial Statements

The Corporation's Financial Statements are complete and correct, have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with those of preceding periods and present fairly and accurately:

- (a) all of the assets, liabilities (whether accrued, absolute, contingent, matured or unmatured or otherwise) and the financial condition of the Corporation and the Subsidiaries; and
- (b) the revenues, earnings and results of operations of the Corporation on a consolidated basis,

in each case as of the date and throughout the period indicated.

### 3.1.13 Business Carried on in Ordinary Course

Since December 31, 2003, the Corporation's Business has been carried on in the ordinary course, consistent with past practice and, in particular and without limitation, neither the Corporation nor any Subsidiary has, other than in the ordinary course of business:

- (a) transferred, assigned, sold or otherwise disposed of any of its assets;
- (b) incurred or assumed any obligation or liability (fixed or contingent) other than obligations or liabilities included in the Corporation's Financial Statements;
- (c) settled any liability or Legal Proceeding pending against it or any of its assets;
- (d) discharged or satisfied any Encumbrance, or paid any obligation or liability (fixed or contingent) other than liabilities included in the Corporation's Financial Statements, current liabilities incurred since December 31, 2003, in the ordinary course of business and scheduled payments under loan agreements and other Contracts;
- (e) suffered an operating loss or any extraordinary loss;

- (f) made any material change in the method of billing customers or the credit terms made available to customers;
- (g) made any material change with respect to any method of management operation or accounting in respect of the Corporation's Business;
- (h) waived, cancelled or written off, or agreed or become bound to waive, cancel or write off, any rights, claims or accounts receivable;
- (i) hired or dismissed any employees whose annual salary exceeds \$100,000;
- (j) except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, increased the compensation paid or payable to its Employees or changed the benefits to which such Employees and former employees are entitled under any employee benefit plan, created any new employee benefit plan or modified, amended or terminated any existing employee benefit plan for any such employees other than increases or changes made in the ordinary course of business consistent with past practice or made any amendment to, or terminated, any benefits to Employees;
- (k) created or permitted to exist any Encumbrance on any of its assets other than a Permitted Encumbrance;
- (l) modified, amended or terminated any Material Contract or waived or released any right which it has or had;
- (m) declared or paid any dividend or declared or made any other distribution or return of capital in respect of any of its shares (or been deemed under the Income Tax Act to have done so) or purchased, redeemed or otherwise acquired any of its shares or agreed to do so;
- (n) except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, entered into or become bound by any written or oral contract, agreement or arrangement, or made or authorized any capital expenditure other than in the ordinary course of business or involving or which may result in the payment of money by the Corporation or a Subsidiary, taken together, of an amount in excess of \$250,000 with respect to any one transaction or an amount in excess of \$250,000 with respect to all transactions;
- (o) except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, made any payment to any Interested Person; or
- (p) authorized or agreed or otherwise become committed to do any of the foregoing.

### 3.1.14 No Guarantees

Except as disclosed in the Vendor Disclosure Letter, neither the Corporation nor any Subsidiary has given nor agreed to give, nor is it a party to or bound by or subject to any Guarantee other than Guarantees to banks and suppliers in the ordinary course of business.

### **3.1.15      Non-Arm's Length Transactions**

No Interested Person is indebted to the Corporation or a Subsidiary nor is the Corporation or any Subsidiary indebted to any Interested Person, except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter or expressly disclosed in the Corporation's Financial Statements, and except for usual employee reimbursements and compensation paid in the ordinary and normal course of the Corporation's Business. Except as described herein and except for Contracts of employment, neither the Corporation nor any Subsidiary is a party to any Contract with any Interested Person. No Interested Person: (a) owns, directly or indirectly, in whole or in part, any property that the Corporation or a Subsidiary uses in the operation of the Corporation's Business; or (b) has any cause of action or other claim whatsoever against, or is owed any amount by the Corporation or a Subsidiary in connection with the Corporation's Business, except for any liabilities reflected in the Corporation's Financial Statements and claims in the ordinary course of business such as for accrued expense reimbursements, vacation pay and benefits under employee benefit plans.

### **3.1.16      Employees**

Neither the Corporation nor any Subsidiary is a party to any written or oral pension, deferred profit sharing, benefit, bonus or other similar agreement or arrangement. Neither the Corporation nor any Subsidiary is in arrears in the payment of any contribution or assessment required to be made by it pursuant to any of the agreements or arrangements set forth and described in the Vendor Disclosure Letter. Neither the Corporation nor any Subsidiary has any Employee who cannot be dismissed on reasonable notice which in no event exceeds twelve months. All vacation pay, bonuses, commissions and other employee benefit payments and obligations with respect to employees of the Corporation and each Subsidiary are reflected in and have been fully accrued in the Corporation's Financial Statements.

### **3.1.17      Debt Instruments**

Except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, neither the Corporation nor any Subsidiary is a party to or bound by or subject to any Debt Instrument or any Contract to create, assume or issue any Debt Instrument and no Debt Instrument or Encumbrance which the Corporation or a Subsidiary is a party to or bound by or subject to is dependent upon the Guarantee of or any security provided by any other person.

### **3.1.18      Leases and Leased Property**

Neither the Corporation nor any Subsidiary is a party to or bound by or subject to nor has the Corporation or any Subsidiary agreed or become bound to enter into any real property lease or other right of occupancy relating to real property, whether as lessor or lessee, except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter. Each such Lease is valid and subsisting and in good standing, there is no default thereunder, nor is there any dispute between the Corporation or any Subsidiary and any landlord or tenant under any Lease and the Corporation or the subject Subsidiary is entitled to all rights and benefits under such Leases and neither the Corporation nor any Subsidiary has sublet, assigned, licensed or otherwise conveyed any rights in such Leases or the property subject thereto to any other person. Neither the Corporation nor any Subsidiary is in breach of any of the provisions of any Lease and (subject to

obtaining any Consents and Regulatory Approvals to the change in control of the Corporation and each Subsidiary herein contemplated) and, the completion of the transactions herein contemplated will not afford any of the parties to any Lease or any other person (other than the Corporation or a Subsidiary) the right to terminate any Lease nor will the completion of the transactions herein contemplated result in any additional or more onerous obligation on the Corporation or any Subsidiary under any Lease.

### 3.1.19     Status of Leased Property

All of the plant, buildings, structures, erections, improvements, appurtenances and fixtures (collectively in this Section 3.1.19 “**buildings and structures**”) situate on or forming part of Leased Property are in good operating condition and in a state of good maintenance and repair, are adequate and suitable for the purposes for which they are currently being used and the Corporation or each Subsidiary has adequate rights of ingress and egress to and from all of its buildings and structures for the operation of the Corporation’s Business in the ordinary course. Except as previously disclosed to the Purchaser, none of the buildings and structures, or the operation or maintenance thereof, violates any restrictive covenant or any provision of any Applicable Law or encroaches on any property owned by others.

### 3.1.20     Personal Property

Except for property subject to an Equipment Lease, each of the Corporation and each Subsidiary is the owner of all of its personal property used in the Corporation’s Business with good title thereto free of any Encumbrance other than Permitted Encumbrances.

### 3.1.21     Equipment Leases

Except as disclosed by the Vendor to the Purchaser in the Vendor Disclosure Letter, the Equipment Leases are the only leases of personal property to which the Corporation or a Subsidiary is a party. All such Equipment Leases are in full force and effect and no default exists on the part of the Corporation or a Subsidiary. All payments due under Equipment Leases have been duly and punctually paid and all obligations to be discharged or performed under such Equipment Leases have been fully discharged and performed in accordance with the terms of such Equipment Leases.

### 3.1.22     Licenses and Compliance with Applicable Laws

The Corporation and each Subsidiary possesses all Licenses necessary to carry on the Corporation’s Business and the Corporation and each Subsidiary has conducted and is conducting the Corporation’s Business in compliance with Applicable Law and is not in breach of any provision of Applicable Law. All Licenses of the Corporation and the Subsidiaries are valid and subsisting and in good standing and there is no default thereunder.

### 3.1.23     Sufficiency and Condition of Assets

The assets owned, licensed or leased by the Corporation and the Subsidiaries constitute all of the property and assets necessary to carry on the Corporation’s Business as it is currently carried on, are free of material defects and include all proprietary rights, Intellectual and Industrial Property Rights and other property and assets, tangible and intangible, used in

connection with the Corporation's Business. All tangible assets used in the Corporation's Business are in good operating condition and in a state of good repair and maintenance, reasonable wear and tear excepted.

### 3.1.24 Insurance

- (a) The Corporation and the Subsidiaries maintain insurance policies covering their property and assets and protecting the Corporation's Business, in each case with coverage terms and other attributes consistent with prudent practice of persons carrying on operations similar to the Corporation's Business. Each of such insurance policies is valid and subsisting and in good standing, there is no default thereunder and each of the Corporation and each Subsidiary which is an insured party thereunder is entitled to all rights and benefits thereunder.
- (b) The Vendor has provided to the Purchaser a list of all pending claims under any of such insurance policies that identifies the most recent inspection reports, if any, received from insurance underwriters as to the condition or insurance value of the insured property and assets, copies of which have been made available to the Purchaser. Neither the Corporation nor any Subsidiary has failed to give any notice or present any claim under any of such insurance policies in due and timely fashion. To the Vendor's knowledge there are presently no circumstances under which a claim would be made under such insurance polices.
- (c) No notice of cancellation or non-renewal with respect to, nor disallowance of any claim under, any of such insurance policies has been received by, or is anticipated by, the Corporation or a Subsidiary.

### 3.1.25 Material Contracts

**"Material Contract"** means any of the following types of Contracts (other than this Agreement):

- (a) Leases;
- (b) Equipment Leases of the type required to be capitalized in accordance with GAAP;
- (c) agreements and arrangements with respect to Employees, employee benefit plans and persons receiving compensation for work or services provided to the Corporation;
- (d) Guarantees and Debt Instruments;
- (e) insurance policies;
- (f) Contracts between the Corporation or any Supplier and with any customer or supplier which individually provide more than 10% of either the gross revenues or the net earnings of the Corporation;
- (g) other Contracts including current and future aggregate actual or contingent obligations to pay to or by the Corporation or any Subsidiary of more than

\$100,000 during the entire term (including, if applicable, any renewals thereof); and

- (h) the agreements and arrangements relating to Licensed I.P.

Except as for the contracts disclosed in the Vendor Disclosure Letter neither the Corporation nor any Subsidiary is party to or bound by or subject to any Material Contract. Except as set out in the Vendor Disclosure Letter, no Consent is required nor is any notice required to be given under any Material Contract from any party thereto or any other person in connection with the completion of the transactions herein contemplated in order to maintain all rights of the Corporation or the relevant Subsidiary under any such Material Contract. All of the Material Contracts are in good standing and in full force and effect with no amendments except as set out in the Vendor Disclosure Letter and the Corporation or the relevant Subsidiary is entitled to all rights and benefits thereunder.

To the knowledge of the Vendor, none of the other parties to the Material Contracts are in default of any of their obligations under the Material Contracts in any material respect, nor has any such party given notice to the Vendor of cancellation or termination of any Material Contract.

To the knowledge of the Vendor, each Material Contract is in full force and effect without amendment and the Vendor is not aware of any circumstances under which presently any Material Contract will be terminated or amended.

### 3.1.26 Legal Proceedings

There is no Legal Proceeding in excess of \$25,000 (whether or not purportedly on behalf of the Corporation or a Subsidiary) in progress, pending or, to the Vendor's knowledge, threatened against or affecting the Corporation or a Subsidiary before or by any Tribunal, and the aggregate claims under all Legal Proceedings in progress, pending or, to the Vendor's knowledge, threatened against or affecting the Corporation or a Subsidiary do not exceed \$250,000. To the knowledge of the Vendor, there are no grounds on which any such Legal Proceeding might be commenced with any reasonable likelihood of success. There is no Order outstanding against or affecting the Corporation or any Subsidiary.

### 3.1.27 Banking Information

The Vendor has provided to the Purchaser in the Vendor Disclosure Letter the name and location (including municipal address) of each bank, trust company or other institution in which the Corporation or any Subsidiary has an account, money on deposit or a safety deposit box and the name of each person authorized to draw thereon or to have access thereto and the name of each person holding a power of attorney from the Corporation or any Subsidiary and a summary of the terms thereof.

### 3.1.28 Tax Matters

#### (a) *Taxes and Tax Returns*

Each of the Corporation and each Subsidiary has duly filed in the prescribed manner and within the prescribed time all Tax Returns required to be filed by it and such Tax Returns are correct and complete in all material respects. The Corporation and each Subsidiary has paid all Taxes due and payable by it, including all Taxes shown on all Tax Returns filed by it as being due and payable and all Taxes payable under any assessment or reassessment.

#### (b) *Liabilities for Taxes*

The Corporation's Financial Statements fully reflect accrued liabilities for all Taxes which are not yet due and payable and for which Tax Returns are not yet required to be filed. No examination of any Tax Return of the Corporation or any Subsidiary by a Governmental Authority is currently in progress. There is no Legal Proceeding, assessment, re-assessment or written request for information from a Governmental Authority outstanding with respect to Taxes.

#### (c) *Waivers*

There are no agreements, waivers or other arrangements providing for an extension of time with respect to any assessment or reassessment of Tax, the filing of any Tax Return or the payment of any Tax by the Corporation or any Subsidiary.

#### (d) *Withholding and Instalments*

The Corporation and each Subsidiary has withheld from each payment made by it the amount of all Taxes and other deductions required under any applicable Tax Legislation to be withheld therefrom and has remitted all such amounts withheld and paid all instalments of Taxes due and payable before the date hereof to the relevant Governmental Authority within the time prescribed under any applicable Tax Legislation.

#### (e) *GST and Sales Tax Matters*

The Corporation and each Subsidiary has complied with all registration, reporting, collection and remittance requirements in respect of all federal and provincial Tax Legislation in respect of sales tax, including the *Excise Tax Act* (Canada) and the *Retail Sales Tax Act* (Ontario).

#### (f) *Documents Provided*

The Corporation has provided to the Purchaser copies of all Tax Returns of the Corporation and each Subsidiary for all fiscal periods for which the relevant limitation period in any Tax Legislation has not expired, together with all communications relating thereto from any Governmental Authority under or pursuant to such Tax Legislation, and the response, if any, of the Corporation and each Subsidiary to such communication.

### 3.1.29 Accounts Receivable

The accounts receivable recorded on the Corporation's Financial Statements and in the Accounting Records, which reflect a reasonable reserve in respect thereof for doubtful accounts calculated in accordance with generally accepted accounting principles consistently applied, have arisen in the ordinary course of the Corporation's Business and are *bona fide*.

### 3.1.30 Residence of Vendor

The Vendor is not a "non-resident" of Canada within the meaning of the Income Tax Act.

### 3.1.31 Inventories

The inventories of the Corporation and the Subsidiaries consist solely of items of tangible personal property of the kind and quality regularly used or produced in the Corporation's Business and are of market value quality, are saleable or resaleable (or useable) in the ordinary course of the Corporation's Business for the purpose for which they were intended and are at a level consistent with the level of inventories that has been maintained in the operation of the Corporation's Business prior to the date hereof in accordance with normal business practice and reasonably anticipated requirements in light of seasonal adjustments, market fluctuations in the software industry and the requirements of customers of the Corporation's Business.

### 3.1.32 Intellectual and Industrial Property

- (a) The Vendor has provided the Purchaser in the Vendor Disclosure Letter with a true and complete list of all material Intellectual Property of the Corporation used directly or indirectly in connection with the Corporation's Business and such list specified for each item whether such item is owned by the Corporation (the "**Owned Intellectual Property**") or whether it is used by the Corporation under a license agreement from another person (the "**Licensed Intellectual Property**").
- (b) The Vendor has provided to the Purchaser in the Vendor Disclosure Letter, for each item of Owned Intellectual Property, a list of any registrations or applications for registration of such Owned Intellectual Property.
- (c) The Corporation is the owner of or has the right to use the Owned Intellectual Property and Licensed Intellectual Property, respectively, free and clear of all Encumbrances, except for Permitted Encumbrances, and is not a party to or bound by any Contract or other obligation whatsoever that limits, impairs or that otherwise affects, the Owned Intellectual Property or the Licensed Intellectual Property.
- (d) The Vendor is not aware of any claim of any infringement or breach of any Intellectual and Industrial Property Rights of any other person against the Corporation or any Subsidiary, nor has the Corporation or any Subsidiary received any notice that the conduct of the Corporation's Business, including the use of the Owned Intellectual Property or Licensed Intellectual Property, infringes upon or breaches any Intellectual and Industrial Property Rights of any other person, or has any knowledge of any infringement or violation of any of the

Corporation's or any Subsidiary's rights in the Owned Intellectual Property or Licensed Intellectual Property.

- (e) To the best of the knowledge of the Vendor, the conduct of the Corporation's Business does not infringe upon the Intellectual and Industrial Property Rights of any other person.
- (f) The Vendor is not aware of any state of facts that casts doubt on the validity or enforceability of any of the Owned Intellectual Property or the Corporation's, or any Subsidiary's rights in the Licensed Intellectual Property.
- (g) The Vendor has provided to the Purchaser true and complete copies of all Contracts and amendments thereto that comprise or relate to the Intellectual Property of the Corporation.

### **3.2 Representations and Warranties of the Purchaser**

The Purchaser represents and warrants to the Vendor and Minority Vendor as set out in this Section 3.2 and acknowledges that the Vendor and Minority Vendor are relying on such representations and warranties in connection with the transactions contemplated in this Agreement.

#### **3.2.1 Authorization of Purchase by Purchaser**

The execution and delivery of this Agreement and the completion of the transactions herein contemplated have been duly and validly authorized by all necessary corporate action on behalf of the Purchaser and this Agreement has been duly and validly executed and delivered by the Purchaser and is a valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with its terms. There is no Legal Proceeding in progress, pending, or, to the knowledge of the Purchaser, threatened against or affecting the Purchaser at law or in equity or before or by any Tribunal and, to the knowledge of the Purchaser, there are no grounds on which any such Legal Proceeding might be commenced with any reasonable likelihood of success nor is there any Order outstanding against or affecting the Purchaser which, in any such case, affects adversely or might affect adversely the ability of the Purchaser to enter into this Agreement or to perform its obligations hereunder.

#### **3.2.2 Shares**

The Purchaser Common Shares and Series A Preferred Shares to be issued pursuant to this Agreement will, upon issue, be:

- (a) issued as fully-paid and non-assessable shares; and
- (b) subject to a four month hold period in accordance with applicable securities laws, subject to restrictions contained therein in respect of distributions by "control persons" and any escrow which the TSX Venture Exchange may impose under its company manual in accordance with the express formulae set out therein.

### 3.2.3 Incorporation and Organization of the Purchaser and the Purchaser Subsidiaries

The Purchaser is a corporation duly incorporated, organized and subsisting under the laws of Ontario and each Purchaser Subsidiary is a corporation duly incorporated, organized and subsisting under the laws of its jurisdiction of incorporation. No proceedings have been taken or authorized by the Purchaser or any Purchaser Subsidiary or by any other person with respect to the bankruptcy, insolvency, liquidation, dissolution or winding up of the Purchaser or any Purchaser Subsidiary or with respect to any amalgamation, merger, consolidation, arrangement or reorganization of, or relating to, the Purchaser. True and complete copies of the Articles of the Purchaser and all by-laws of the Purchaser are contained in the minute book of the Purchaser made available to the Vendor and true and complete copies of the Articles and by-laws of each Purchaser Subsidiary are contained in the minute books of the Purchaser Subsidiaries made available to the Vendor. The Articles of the Purchaser and each Purchaser Subsidiary and the by-laws of the Purchaser and each Purchaser Subsidiary constitute all of the Articles and by-laws of the Purchaser and the Purchaser Subsidiaries, respectively, and are complete and correct and are in full force and effect. To the Purchaser's knowledge, there are no (i) shareholders' agreements or unanimous shareholders' agreements governing the affairs of the Purchaser or any Purchaser Subsidiary or the relationship, rights and duties of their respective shareholders or (ii) voting trusts, pooling arrangements or other similar agreements with respect to the ownership or voting of any shares of the Purchaser or any Purchaser Subsidiary.

### 3.2.4 Corporate Records

The minute books of the Purchaser and each Purchaser Subsidiary and other corporate records made available to the Vendor for review have been maintained in accordance with Applicable Law and contain, in all material respects, complete and accurate copies of all by-laws of the Purchaser and each Purchaser Subsidiary and minutes of meetings of, and resolutions passed by, the shareholders, directors and committees of directors since the respective dates of incorporation of the Purchaser and each Purchaser Subsidiary. The share certificate book (in respect of the Purchaser Subsidiaries), register of shareholders, register of transfers and register of directors of the Purchaser and each Purchaser Subsidiary are complete, accurate and current.

### 3.2.5 Qualification of the Purchaser and the Purchaser Subsidiaries to Conduct Business

The Purchaser and each Purchaser Subsidiary has the necessary corporate power, authority and capacity to own or lease and use its property and assets and to carry on the Purchaser's Business as now being conducted by it and is registered, licensed or otherwise qualified to carry on the Purchaser's Business in each jurisdiction in which the nature of the Purchaser's Business as carried on by it or the property or assets owned or leased or used by it makes such qualification necessary. The Purchaser and each Purchaser Subsidiary possesses all Licenses required for the conduct of the Purchaser's Business.

### 3.2.6 Authorized and Issued Capital

The authorized capital of the Purchaser consists of an unlimited number of Purchaser Common Shares and an unlimited number of Series I Preference Shares. The Purchaser is the registered and beneficial owner of all of the issued shares of each Purchaser Subsidiary free and clear of any Encumbrance except as disclosed by the Purchaser to the Vendor in the Purchaser

Disclosure Letter. No other securities have been issued by any Purchaser Subsidiary and all of the issued shares of the Purchaser Subsidiaries have been validly issued and are outstanding as fully paid and non-assessable shares.

### 3.2.7      Investments

The Purchaser has no subsidiary which is or could reasonably be expected to become material to the Purchaser on a consolidated basis other than the Purchaser Subsidiaries and, except as previously disclosed, does not own, directly or indirectly, any shares of any body corporate other than the Purchaser Subsidiaries nor does it have any equity or ownership interest in any other business or person and has not agreed to acquire any subsidiary or any such shares or other equity ownership or interest. Neither the Purchaser nor any Purchaser Subsidiary is subject to any obligation or requirement to provide funds to or to make any investment in any business or person by way of loan, capital contribution or otherwise.

### 3.2.8      Conflicting Instruments

Neither the entering into of this Agreement by the Purchaser, nor the entering into of any agreement or other instrument contemplated hereby nor the completion of the transactions herein contemplated nor the performance by the Purchaser of its obligations hereunder will: (a) conflict with, or result in the breach or violation of or default under, or cause the acceleration of any obligations of the Purchaser or any Purchaser Subsidiary under, any of the terms and provisions of (i) any Applicable Law, (ii) the Articles of the Purchaser or its by-laws or the Articles or by-laws of any Purchaser Subsidiary or any resolution of the directors or shareholders of the Purchaser or any Purchaser Subsidiary; or (iii) subject to obtaining any Consent or Regulatory Approval which may be required thereunder in connection with the completion of the transactions herein contemplated, any License, Order or agreement, Contract or commitment to which any of the Purchaser or any Purchaser Subsidiary is a party or by which any of them is bound; (b) relieve any other party to any Contract, Lease or Equipment Lease of that party's obligations thereunder or enable it to terminate its obligations thereunder; (c) cause the Purchaser or a Purchaser Subsidiary to lose any rights under any Contract, Lease or Equipment Lease; or (d) result in the creation of any lien or encumbrance on any of the property or assets of the Purchaser or a Purchaser Subsidiary.

### 3.2.9      Regulatory Approvals

Except as set forth in the Purchaser Disclosure Letter, no Regulatory Approval or registration or filing with, notice to, or waiver from any Governmental Authority or other person is required to be obtained or made by the Purchaser or any Purchaser Subsidiary: (a) in connection with the execution, delivery and performance by the Purchaser of its obligations under this Agreement or the Closing Documents or the consummation of the transactions contemplated hereby; (b) to avoid the loss of any License relating to the Purchaser's Business; or (c) to permit the Purchaser or any Purchaser Subsidiary to carry on the Purchaser's Business after the Closing as the Purchaser's Business is currently carried on by the Purchaser or the Purchaser Subsidiary, as the case may be.

### **3.2.10 Financial Statements**

The Purchaser's Financial Statements are complete and correct, have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with those of preceding periods and present fairly and accurately:

- (a) all of the assets, liabilities (whether accrued, absolute, contingent, matured or unmatured or otherwise) and the financial condition of the Purchaser and the Purchaser Subsidiaries; and
- (b) the revenues, earnings and results of operations of the Purchaser on a consolidated basis,

in each case as of the date and throughout the period indicated.

### **3.2.11 Business Carried on in Ordinary Course**

Since May 31, 2004, the Purchaser's Business has been carried on in the ordinary course, consistent with past practice and, in particular and without limitation, neither the Purchaser nor any Purchaser Subsidiary has, other than in the ordinary course of business or as disclosed in the Purchaser Disclosure Letter:

- (a) transferred, assigned, sold or otherwise disposed of any of its assets except for the sale of inventory;
- (b) incurred or assumed any obligation or liability (fixed or contingent) other than obligations or liabilities included in the Purchaser's Financial Statements and current liabilities incurred since May 31, 2004 in the ordinary course of business;
- (c) settled any liability or Legal Proceeding pending against it or any of its assets;
- (d) discharged or satisfied any lien or encumbrance, or paid any obligation or liability (fixed or contingent) other than liabilities included in the Purchaser's Financial Statements, current liabilities incurred since May 31, 2004, in the ordinary course of business and scheduled payments under loan agreements and other Contracts;
- (e) suffered an operating loss or any extraordinary loss;
- (f) made any material change in the method of billing customers or the credit terms made available to customers;
- (g) made any material change with respect to any method of management operation or accounting in respect of the Purchaser's Business;
- (h) waived, cancelled or written off, or agreed or become bound to waive, cancel or write off, any rights, claims or accounts receivable;
- (i) hired or dismissed any employees whose annual salary exceeds \$100,000;
- (j) except as previously disclosed to the Vendor, increased the compensation paid or payable to its Employees or changed the benefits to which such Employees and former employees are entitled under any employee benefit plan, created any new

employee benefit plan or modified, amended or terminated any existing employee benefit plan for any such employees other than increases or changes made in the ordinary course of business consistent with past practice or made any amendment to, or terminated, any benefits to Employees;

- (k) created or permitted to exist any Encumbrance on any of its assets other than Encumbrances that have been previously disclosed to the Vendor;
- (l) modified, amended or terminated any Material Contract or waived or released any right which it has or had;
- (m) declared or paid any dividend or declared or made any other distribution or return of capital in respect of any of its shares (or been deemed under the Income Tax Act to have done so) or purchased, redeemed or otherwise acquired any of its shares or agreed to do so;
- (n) entered into or become bound by any written or oral contract, agreement or arrangement, or made or authorized any capital expenditure other than in the ordinary course of Business or involving or which may result in the payment of money by the Purchaser or a Purchaser Subsidiary of an amount in excess of \$100,000 with respect to any one transaction or an amount in excess of \$100,000 with respect to all transactions;
- (o) made any payment to any Interested Person; or
- (p) authorized or agreed or otherwise become committed to do any of the foregoing.

### **3.2.12     No Guarantees**

Except as previously disclosed to the Vendor in the Purchaser Disclosure Letter, neither the Purchaser nor any Purchaser Subsidiary has given nor agreed to give, nor is it a party to or bound by or subject to any Guarantee.

### **3.2.13     Non-Arm's Length Transactions**

No Interested Person is indebted to the Purchaser or a Purchaser Subsidiary nor is the Purchaser or any Purchaser Subsidiary indebted to any Interested Person, except such indebtedness as disclosed by the Purchaser to the Vendor in the Purchaser Disclosure Letter or expressly disclosed in the Purchaser's Financial Statements, and except for usual employee reimbursements and compensation paid in the ordinary and normal course of the Purchaser's Business. Except as described herein and except for Contracts of employment, neither the Purchaser nor any Purchaser Subsidiary is a party to any Contract with any Interested Person. No Interested Person: (a) owns, directly or indirectly, in whole or in part, any property that the Purchaser or a Purchaser Subsidiary uses in the operation of the Purchaser's Business; or (b) has any cause of action or other claim whatsoever against, or is owed any amount by the Purchaser or a Purchaser Subsidiary in connection with the Purchaser's Business, except for any liabilities reflected in the Purchaser's Financial Statements and claims in the ordinary course of business such as for accrued expense reimbursements, vacation pay and benefits under employee benefit plans. Since May 31, 2004 no payment has been made to any Interested Person outside the ordinary course of business.

### **3.2.14 Employees**

Neither the Purchaser nor any Purchaser Subsidiary is not a party to any written or oral employment, service, pension, deferred profit sharing, benefit, bonus or other similar agreement or arrangement except as set forth and described in the Purchaser Disclosure Letter and none of such agreements or arrangements contains any specific agreement as to notice of termination or severance pay in lieu thereof except as disclosed in the Purchaser Disclosure Letter. Neither the Purchaser nor any Purchaser Subsidiary is not in arrears in the payment of any contribution or assessment required to be made by it pursuant to any of the agreements or arrangements set forth and described in the Purchaser Disclosure Letter. Neither the Purchaser nor any Purchaser Subsidiary does not have any employee who cannot be dismissed on reasonable notice which in no event exceeds twelve months. All vacation pay, bonuses, commissions and other employee benefit payments and obligations with respect to employees of the Purchaser and each Purchaser Subsidiary are reflected in and have been fully accrued in the Purchaser's Financial Statements.

### **3.2.15 Debt Instruments**

Except as disclosed to the Vendor in the Purchaser Disclosure Letter, neither the Purchaser nor any Purchaser Subsidiary is a party to or bound by or subject to any Debt Instrument or any agreement, contract or commitment to create, assume or issue any Debt Instrument and no Debt Instrument or Encumbrance which the Purchaser or a Purchaser Subsidiary is a party to or bound by or subject to is dependent upon the Guarantee of or any security provided by any other person.

### **3.2.16 Leases and Leased Property**

Neither the Purchaser nor any Purchaser Subsidiary is a party to or bound by or subject to nor has the Purchaser or any Purchaser Subsidiary agreed or become bound to enter into any real property lease or other right of occupancy relating to real property, whether as lessor or lessee, except for Leases disclosed to the Vendor in the Purchaser Disclosure Letter. Each such Lease is valid and subsisting and in good standing, there is no default thereunder, nor is there any dispute between the Purchaser or any Purchaser Subsidiary and any landlord or tenant under any Lease and the Purchaser or a Purchaser Subsidiary is entitled to all rights and benefits under such Leases and neither the Purchaser nor a Purchaser Subsidiary has sublet, assigned, licensed or otherwise conveyed any rights in such Leases or the property subject thereto to any other person. Neither the Purchaser nor a Purchaser Subsidiary is in breach of any of the provisions of any Lease and the completion of the transactions herein contemplated will not afford any of the parties to any Lease or any other person (other than the Purchaser or a Purchaser Subsidiary) the right to terminate any Lease nor will the completion of the transactions herein contemplated result in any additional or more onerous obligation on the Purchaser or a Purchaser Subsidiary under any Lease.

### **3.2.17 Status of Leased Property**

All of the plant, buildings, structures, erections, improvements, appurtenances and fixtures (collectively in this Section 3.2.17 "**buildings and structures**") situate on or forming part of Leased Property are in good operating condition and in a state of good maintenance and repair, are adequate and suitable for the purposes for which they are currently being used and the

Purchaser or each Purchaser Subsidiary has adequate rights of ingress and egress to and from all of its buildings and structures for the operation of the Purchaser's Business in the ordinary course. Except as disclosed to the Vendor in the Purchaser Disclosure Letter, none of the buildings and structures, or the operation or maintenance thereof, violates any restrictive covenant or any provision of any Applicable Law or encroaches on any property owned by others.

### 3.2.18 Personal Property

Except for property subject to an Equipment Lease, each of the Purchaser and each Purchaser Subsidiary is the owner of all of its personal property used in the Purchaser's Business with good title thereto free of any Encumbrance other than Encumbrances disclosed to the Vendor in the Purchaser Disclosure Letter.

### 3.2.19 Equipment Leases

The Equipment Leases disclosed to the Vendor in the Purchase Disclosure Letter are the only leases of personal property to which the Purchaser or a Purchaser Subsidiary is a party. All of such Equipment Leases are in full force and effect and no default exists on the part of the Purchaser or a Purchaser Subsidiary. All payments due under Equipment Leases have been duly and punctually paid and all obligations to be discharged or performed under such Equipment Leases have been fully discharged and performed in accordance with the terms of such Equipment Leases.

### 3.2.20 Licenses and Compliance with Applicable Laws

The Purchaser and each Purchaser Subsidiary possesses all Licenses necessary to carry on the Purchaser's Business and the Purchaser and each Purchaser Subsidiary has conducted and is conducting the Purchaser's Business in compliance with Applicable Law and is not in breach of any provision of Applicable Law. All Licenses of the Purchaser and the Purchaser Subsidiaries are valid and subsisting and in good standing and there is no default thereunder.

### 3.2.21 Sufficiency and Condition of Assets

The assets owned, licensed or leased by the Purchaser and the Purchaser Subsidiaries constitute all of the property and assets necessary to carry on the Purchaser's Business as it is currently carried on, are free of material defects and include all proprietary rights, Intellectual and Industrial Property Rights and other property and assets, tangible and intangible, used in connection with the Purchaser's Business. All tangible assets used in the Purchaser's Business are in good operating condition and in a state of good repair and maintenance, reasonable wear and tear excepted.

### 3.2.22 Insurance

- (a) The Purchaser and the Purchaser Subsidiaries maintain insurance policies covering their property and assets and protecting the Purchaser's Business. Each of such insurance policies is valid and subsisting and in good standing, there is no default thereunder and the Purchaser and each Purchaser Subsidiary which is an insured party thereunder is entitled to all rights and benefits thereunder.

- (b) The Purchaser has provided to the Vendor in the Purchaser Disclosure Letter a list of all pending claims under any of such insurance policies that identifies the most recent inspection reports, if any, received from insurance underwriters as to the condition or insurance value of the insured property and assets, copies of which have been made available to the Vendor. Neither the Purchaser nor any Purchaser Subsidiary has failed to give any notice or present any claim under any of such insurance policies in due and timely fashion.
- (c) No notice of cancellation or non-renewal with respect to, nor disallowance of any claim under, any of such insurance policies has been received by the Purchaser or a Purchaser Subsidiary.

### 3.2.23 Material Contracts

**“Material Contract”** means any of the following types of Contracts (other than this Agreement):

- (a) Leases;
- (b) Equipment Leases of the type required to be capitalized in accordance with GAAP;
- (c) agreements and arrangements with respect to Employees, employee benefit plans and persons receiving compensation for work or services provided to the Purchaser;
- (d) Guarantees and Debt Instruments;
- (e) insurance policies;
- (f) Contracts between the Purchaser or any Supplier and with any customer which individually provide more than 10% of either the gross revenues or the net earnings of the Purchaser;
- (g) other Contracts including current and future aggregate actual or contingent obligations to pay to or by the Purchaser or any Purchaser Subsidiary of more than \$100,000 during the entire term (including, if applicable, any renewals thereof); and
- (h) the agreements and arrangements relating to Licensed I.P.

Except as for the contracts disclosed in the Purchaser Disclosure Letter, neither the Purchaser nor any Purchaser Subsidiary is party to or bound by or subject to any Material Contract. Except as set out in the Purchaser Disclosure Letter, no Consent is required nor is any notice required to be given under any Material Contract from any party thereto or any other person in connection with the completion of the transactions herein contemplated in order to maintain all rights of the Purchaser or the relevant Purchaser Subsidiary under any such Material Contract. All of the Material Contracts are in good standing and in full force and effect with no amendments except as set out in the Purchaser Disclosure Letter and the Purchaser or the relevant Purchaser Subsidiary is entitled to all rights and benefits thereunder.

To the knowledge of the Purchaser, none of the other parties to the Material Contracts are in default of any of their obligations under the Material Contracts in any material respect, nor has any such party given notice to the Purchaser of cancellation or termination of any Material Contract.

To the knowledge of the Purchaser, each Material Contract is in full force and effect without amendment and the Purchaser is not aware of any circumstances under which presently any Material Contract will be terminated or amended.

### **3.2.24     Legal Proceedings**

Except as disclosed to the Vendor in the Purchaser Disclosure Letter, there is no Legal Proceeding in excess of \$25,000 per claim and (whether or not purportedly on behalf of the Purchaser or a Purchaser Subsidiary) in progress, pending or, to the Purchaser's knowledge, threatened against or affecting the Purchaser or a Purchaser Subsidiary before or by any Tribunal, which Legal Proceeding involves the possibility of any judgment or other liability of the Purchaser or a Purchaser Subsidiary which claims more than \$25,000, and the aggregate claims under all Legal Proceedings in progress, pending or, to the Purchaser's knowledge, threatened against or affecting the Purchaser or a Purchaser Subsidiary do not exceed \$250,000. To the knowledge of the Purchaser, there are no grounds on which any such Legal Proceeding might be commenced with any reasonable likelihood of success. Except as disclosed to the Vendor in the Purchaser Disclosure Letter, there is no Order outstanding against or affecting the Purchaser or any Purchaser Subsidiary.

### **3.2.25     Tax Matters**

#### **(a)     *Taxes and Tax Returns***

Each of the Purchaser and each Purchaser Subsidiary has duly filed in the prescribed manner and within the prescribed time all Tax Returns required to be filed by it and such Tax Returns are correct and complete in all material respects. Each of the Purchaser and each Purchaser Subsidiary has paid all Taxes due and payable by it, including all Taxes shown on all Tax Returns filed by it as being due and payable and all Taxes payable under any assessment or reassessment.

#### **(b)     *Liabilities for Taxes***

The Purchaser's Financial Statements fully reflect accrued liabilities for all Taxes which are not yet due and payable and for which Tax Returns are not yet required to be filed. No examination of any Tax Return of the Purchaser or any Purchaser Subsidiary by a Governmental Authority is currently in progress. Except as previously disclosed to the Vendor, there is no Legal Proceeding, assessment, re-assessment or written request for information from a Governmental Authority outstanding with respect to Taxes.

#### **(c)     *Waivers***

Except as disclosed to the Vendor in the Purchaser Disclosure Letter, there are no agreements, waivers or other arrangements providing for an extension of time with respect to any

assessment or reassessment of Tax, the filing of any Tax Return or the payment of any Tax by the Purchaser or any Purchaser Subsidiary.

(d) *Withholding and Instalments*

Each of the Purchaser and each Purchaser Subsidiary has withheld from each payment made by it the amount of all Taxes and other deductions required under any applicable Tax Legislation to be withheld therefrom and has remitted all such amounts withheld and paid all instalments of Taxes due and payable before the date hereof to the relevant Governmental Authority within the time prescribed under any applicable Tax Legislation.

(e) *GST and Sales Tax Matters*

Each of the Purchaser and each Purchaser Subsidiary has complied with all registration, reporting, collection and remittance requirements in respect of all federal and provincial Tax Legislation in respect of sales tax, including the *Excise Tax Act* (Canada) and the *Retail Sales Tax Act* (Ontario).

(f) *Documents Provided*

The Purchaser has provided to the Vendor copies of all Tax Returns of the Purchaser and each Purchaser Subsidiary for all fiscal periods for which the relevant limitation period in any Tax Legislation has not expired, together with all communications relating thereto from any Governmental Authority under or pursuant to such Tax Legislation, and the response, if any, of the Purchaser and each Purchaser Subsidiary to such communication.

3.2.26 No Cease Trade

The Purchaser is not subject to any cease trade or other order of any applicable stock exchange or Securities Authority and, to the knowledge of the Purchaser, no investigation or other proceedings involving the Purchaser which may operate to prevent or restrict trading of any securities of the Purchaser are currently in progress or pending before any applicable stock exchange or Securities Authority.

3.2.27 Reporting Status

The Purchaser is a reporting issuer or its equivalent, in good standing, in the Provinces of British Columbia, Alberta and Ontario. The Purchaser Common Shares are listed on the TSX Venture Exchange.

3.2.28 Reports

Since May 31, 2003, the Purchaser has filed with the Securities Authorities, stock exchanges and all applicable self-regulatory authorities a true and complete copy of all forms, reports, schedules, statements, certifications, material change reports and other documents required to be filed by it (such forms, reports, schedules, statements, certifications and other documents, including any financial statements or other documents, including any schedules included therein, are referred to in this subsection as the "**Purchaser Documents**"). The Purchaser Documents, at the time filed, (a) did not contain any misrepresentation (as defined in the *Securities Act* (Ontario)) and (b) complied in all material respects with the requirements of

applicable securities legislation and the rules, policies and instruments of all Securities Authorities having jurisdiction over the Purchaser, except where such non-compliance has not and would not reasonably be expected to have a Material Adverse Effect on the Purchaser. The Purchaser has not filed any confidential material change or other report or other document with any Securities Authorities or stock exchange or other self-regulatory authority which at the date hereof remains confidential.

### 3.2.29 Investment Canada

The Purchaser is not a “non-Canadian” within the meaning of the *Investment Canada Act* (Canada).

## 3.3 **Representations and Warranties of the Minority Vendor**

The Minority Vendor represents and warrants to the Purchaser (and acknowledges that the Purchaser is relying on such representations and warranties in connection with the transactions contemplated in this Agreement) as follows:

### 3.3.1 The Minority Vendor

The Minority Vendor is the registered and beneficial owner of all the Minority Shares. The Minority Vendor now has, and on Closing the Purchaser shall acquire, good title to the Minority Shares, free and clear of all Encumbrances. There are no restrictions of any kind on the transfer of the Minority Shares except those set out in the Articles of Subco 3. No person has, or has any right capable of becoming, any agreement, option, understanding or commitment for the purchase or other acquisition from the Minority Vendor of any of the Minority Shares.

### 3.3.2 No Legal Proceedings Against Minority Vendor

There is no Legal Proceeding in progress, pending, or, to the knowledge of the Minority Vendor, threatened against or affecting the Minority Vendor or affecting the title of the Minority Vendor to any of the Minority Shares at law or in equity before any tribunal.

### 3.3.3 Residence of Minority Vendor

The Minority Vendor is not a “non-resident” of Canada within the meaning of the *Income Tax Act*.

## 3.4 **Commission**

Each Party represents and warrants to the other Parties that such other Parties will not be liable for any brokerage commission, finder's fee or other similar payment in connection with the transactions contemplated hereby because of any action taken by, or agreement or understanding reached by, that Party.

### **3.5 Non-Waiver**

No investigations made by or on behalf of a Party at any time shall waive, diminish the scope of or otherwise affect any representation or warranty made by the other Party in this Agreement or in any Closing Document.

### **3.6 Survival of Representations and Warranties of the Vendor and Minority Vendor**

The representations and warranties of the Vendor contained in this Agreement and in any Closing Document and in any agreement, certificate, affidavit, statutory declaration or other document delivered or given pursuant to this Agreement or any Closing Document shall survive the Closing and, notwithstanding the Closing or any investigation made by or on behalf of the Purchaser with respect thereto, shall continue in full force and effect for the benefit of the Purchaser provided, however, that no claim in respect thereof shall be valid unless it is made within the following time periods:

- (a) in the case of a claim in respect of the representations or warranties relating to the enforceability of the Vendor's obligations hereunder, the authorized and issued capital of the Corporation and the Subsidiaries, title of the Vendor to the Purchased Shares and title of the Corporation and the Subsidiaries to their property and assets and in the case of a claim in respect of a representation or warranty based on fraud, there shall be no time limit within which such a claim may be made;
- (b) in the case of a claim in respect of a representation or warranty relating to a Tax matter, other than a claim in respect of a misrepresentation made or fraud committed in filing a Tax Return or supplying information for the purposes of any applicable Tax Legislation, within a period commencing on the Closing Date and ending on the date on which the last applicable limitation period under any applicable Tax Legislation expires with respect to any taxation year which is relevant in determining any liability under this Agreement with respect to Tax matters; and
- (c) in the case of a claim in respect of any other representation or warranty within a period of two years from the Closing Date;

and any such claim as aforesaid shall be made in accordance with the provisions set forth in Article 6 and, upon the expiry of the relevant limitation period, the Vendor shall have no further liability to the Purchaser with respect to any of such representations or warranties, except in respect of claims which have been properly made in accordance with the provisions set forth above.

The representations and warranties of the Minority Vendor contained in this Agreement and in any Closing Document and in any agreement, certificate, affidavit, statutory declaration or other document delivered or given pursuant to this Agreement or any Closing Document shall survive the Closing and, notwithstanding the Closing or any investigation made by or on behalf of the Purchaser with respect thereto, shall continue in full force and effect for the benefit of the Purchaser indefinitely, such that there shall be no time limit within which such a claim may be made, and any such claim shall be made in accordance with the provisions set forth in Article 6.

### **3.7 Survival of Representations and Warranties of the Purchaser**

The representations and warranties of the Purchaser contained in this Agreement and in any Closing Document and in any agreement, certificate, affidavit, statutory declaration or other document delivered or given pursuant to this Agreement or any Closing Document shall survive the Closing and, notwithstanding the Closing or any investigation made by or on behalf of the Vendor or the Minority Vendor with respect thereto, shall continue in full force and effect for the benefit of the Vendor or the Minority Vendor provided, however, that no claim in respect thereof shall be valid unless it is made within the following time periods:

- (a) in the case of a claim in respect of the representations and warranties set forth in Subsections 3.2.1, 3.2.2, 3.2.3 and 3.2.6 and in the case of a claim in respect of a representation or warranty based on fraud, there shall be no time limit within which such a claim may be made;
- (b) in the case of a claim in respect of a representation or warranty relating to a Tax matter, other than a claim in respect of a misrepresentation made or fraud committed in filing a Tax Return or supplying information for the purposes of any applicable Tax Legislation, within a period commencing on the Closing Date and ending on the date on which the last applicable limitation period under any applicable Tax Legislation expires with respect to any taxation year which is relevant in determining any liability under this Agreement with respect to Tax matters; and
- (c) in the case of a claim in respect of any other representation and warranty, within a period of two years from the Closing Date;

and any such claim shall be made in accordance with the provisions set forth in Article 6 and, upon the expiry of the relevant limitation period, the Purchaser shall have no further liability to the Vendor with respect to any of such representations or warranties, except in respect of claims which have been properly made in accordance with the provisions set forth above.

## **ARTICLE 4 COVENANTS OF THE PARTIES**

### **4.1 Covenants of the Vendor**

The Vendor hereby covenants and agrees with the Purchaser as set out in this Section 4.1.

#### **4.1.1 Investigations and Availability of Records**

During the Interim Period, the Vendor shall permit John L. Smith, Senior Vice-President of the Purchaser, acting under the unanimous direction of the independent committee of the board of directors of the Purchaser, or in the event that John L. Smith, acting reasonably and under such direction, believes an advisor is required, an advisor agreed to by Vendor and John L. Smith, acting reasonably, to have free and unrestricted access to the property and assets of the Corporation and the Subsidiaries, including the Books and Records, and to the Corporation's Employees and accountants to make such investigations of the Corporation's Business and the property and assets of the Corporation and the Subsidiaries and their legal, financial and tax

condition and their compliance with Applicable Laws as John L. Smith deems necessary or desirable; provided that such investigations shall be carried out during normal business hours and without undue interference with the operations of the Corporation or the Subsidiaries and the Vendor shall co-operate fully in facilitating such investigations and shall furnish copies of all such documents and materials relating to such matters as may be reasonably requested by or on behalf of the John L. Smith.

#### 4.1.2 Conduct of the Business

- (a) During the Interim Period, the Vendor shall cause the Corporation and each Subsidiary:
  - (i) to carry on the Corporation's Business in the ordinary course consistent with past practice (except as may be otherwise required or contemplated by the provisions of this Agreement) and in compliance with Applicable Law and to perform its obligations and enforce its rights under all Material Contracts;
  - (ii) to preserve the Corporation's Business and the goodwill of suppliers, customers and others having business relations with the Corporation and maintain in full force and effect all Intellectual and Industrial Property Rights owned by and all license agreements or arrangements with respect to the Corporation's Intellectual and Industrial Property;
  - (iii) to retain the services of the present executives, Employees, consultants and advisors of or to it (except as may be otherwise required or contemplated by the provisions of this Agreement);
  - (iv) to continue in full force and effect the insurance coverage referred to in Subsection 3.1.24, to give all notices and present all claims under all insurance policies in a due and timely fashion and promptly advise the Purchaser in writing of any such claims;
  - (v) to pay within the time prescribed by any applicable Tax Legislation any required instalments of Taxes;
  - (vi) to make adequate provision in its Books and Records for the Taxes which relate to any taxation year or part thereof ending or arising before the Closing Date or ending as a consequence of the Closing which are not yet due and payable and for which Tax Returns are not yet required to be filed; and
  - (vii) to withhold from each payment made by it the amount of all Taxes and other deductions required under any applicable Tax Legislation to be withheld therefrom and to pay all such amounts withheld to the relevant taxing or other authority within the time prescribed under any applicable Tax Legislation.

- (b) Other than in the ordinary course of business consistent with past practice, during the Interim Period, the Vendor shall ensure that neither the Corporation nor any Subsidiary (except as may be otherwise required or contemplated by the provisions of this Agreement), without the prior written consent of the Purchaser:
- (i) makes any commitment, obligation or capital expenditure (except in the ordinary course of business pursuant to existing commitments) or authorizes any new capital expenditure;
  - (ii) hires any additional employees;
  - (iii) becomes a party to or bound by or subject to any new agreement or arrangement with respect to employee benefits (other than an employment or personal services agreement or arrangement which is terminable by the Corporation or a Subsidiary without liability on no more than 30 days notice) or amends or concurs in the amendment of or increases any payment or obligation under any existing agreement or arrangement with respect to employee benefit plans other than such as is required or contemplated by an existing policy or practice as to periodic review of employee benefit plans;
  - (iv) takes any step to dissolve, wind-up or otherwise affect its continuing corporate existence or amalgamate or merge with any person or amend the Corporation's Articles or by-laws;
  - (v) makes any loan to or investment in any other person;
  - (vi) becomes a party to or bound by or subject to any new Debt Instrument or amends or concurs in the amendment of or prepays or varies the terms of any indebtedness or other obligation under any existing Debt Instrument;
  - (vii) becomes a party to or bound by or subject to any Guarantee;
  - (viii) except as required pursuant to the terms of an employee benefit plan, declares or pays any dividend or other distribution (whether out of capital or surplus or otherwise) on any of its outstanding securities or redeems, purchases or otherwise acquires any of its outstanding securities;
  - (ix) purchases, sells or leases any property or assets;
  - (x) cancels, waives or varies the terms of any debt owing to or any claim or right of the Corporation;
  - (xi) incurs any obligation or liability or makes, authorizes or accepts any early payment of any existing obligation or liability;
  - (xii) creates or permits the creation of any Encumbrance on the Purchased Shares or on any of its property or assets (except for any Permitted

Encumbrance) or amends or concurs in the amendment of any such existing Encumbrance;

- (xiii) terminates, transfers, assigns, modifies or changes, or grants any rights under, any Intellectual and Industrial Property Rights other than in the ordinary course of business;
- (xiv) changes or alters the physical content or character of any inventories of the Corporation's Business so as to materially affect the nature of the Corporation's Business or materially and adversely change the value of such inventories from that reflected in the Corporation's Financial Statements; or
- (xv) takes or refrains from taking any other action that would cause any of the representations and warranties of the Vendor under this Agreement or any Closing Document to be false or misleading;

nor agrees or becomes bound to do any of the foregoing.

#### **4.1.3      Information for Proxy Circular**

In a timely and expeditious manner, the Vendor shall provide to the Purchaser all information as may be reasonably requested by the Purchaser or as required by Applicable Law with respect to the Corporation, the Subsidiaries and the Corporation's Business for inclusion in the Proxy Circular or in any amendment or supplement to the Proxy Circular which complies in all material respects with all Applicable Law on the date of the mailing thereof and containing all material facts relating to the Corporation and the Subsidiaries required to be disclosed in the Proxy Circular and not containing any misrepresentation (as defined under applicable securities legislation) with respect thereto.

#### **4.1.4      Pledge of Purchase Price**

On the Closing Date the Vendor shall pledge the Purchaser Common Shares and the Series A Preferred Shares representing the Purchase Price to the Purchaser in support of the representations, warranties and covenants of the Vendor for a period of four months from the Closing Date.

#### **4.1.5      Exclusivity**

The Vendor shall not directly or indirectly solicit or permit the Corporation or any Subsidiary to directly or indirectly solicit any competing offers for the Purchased Shares or the assets of the Corporation or the Subsidiaries prior to the termination of this Agreement in accordance with Section 2.9.

### **4.2      Covenants of the Purchaser**

The Purchaser hereby covenants and agrees with the Vendor as set out in this Section 4.2:

#### 4.2.1 Confidentiality

- (a) During the Interim Period, the Purchaser shall keep confidential any trade secrets, know-how or confidential, personal or proprietary information and any financial or business documents or information (collectively in this Subsection 4.2.1 the “**Information**”) received by it from the Vendor or the Corporation or any Subsidiary concerning the Corporation or a Subsidiary or the Corporation’s Business and shall not disclose any Information to any third party, provided that any Information may be disclosed to the Purchaser’s Advisors who need to know such Information in connection with the transactions herein contemplated. The Purchaser shall use all reasonable efforts to ensure that the Purchaser’s Advisors keep confidential any Information disclosed to them. Notwithstanding the foregoing, the Purchaser will not be liable for disclosure of any Information upon the completion at the Closing of the transactions herein contemplated or if:
- (i) the Information becomes generally known in the industry to which the Corporation’s Business is related other than through a breach of this Agreement;
  - (ii) the Information is lawfully obtained from a third party without breach of this Agreement by the Purchaser, provided that the Purchaser is able to produce documentation or other evidence sufficient to establish such third party as the source of the Information;
  - (iii) the Information was known to the Purchaser prior to its disclosure by the Vendor or the Corporation or a Subsidiary, provided that the Purchaser is able to produce documentation or other evidence sufficient to establish such knowledge;
  - (iv) the Information is required to be disclosed pursuant to the requirements of Applicable Law; or
  - (v) either the Vendor or the Corporation or any individual to whom personal information pertains provides its or their prior written approval of such disclosure by the Purchaser.
- (b) If this Agreement is terminated in accordance with the provisions hereof or if the transaction is not completed for a reason other than a breach of this Agreement by the Vendor, the Purchaser shall:
- (i) use all reasonable efforts to insure that all Information and all copies thereof are either destroyed or returned to the Vendor if it so requests so that, so far as possible, any Information obtained during and as a result of any investigation by the Purchaser’s Advisors is not disseminated beyond those persons concerned with such investigations; and
  - (ii) not, directly or indirectly, use for its own purposes, any Information discovered or acquired by the Purchaser’s Advisors as a result of the

Vendor or the Corporation or a Subsidiary making available to them those documents and materials referred to in Subsection 4.1.1.

- (c) The terms of this Section 4.2.1, shall apply *mutatis mutandis* to the Vendor.

#### **4.2.2 Tax Matters**

- (a) The Purchaser shall cause the Corporation and each Subsidiary from and after the Closing Date to retain all Books and Records relating to any period ending on or prior to the Closing Date for a period of seven years following the Closing Date. So long as such books and records and other documents, information and files are retained by the Corporation and the Subsidiaries pursuant to the provisions hereof, the Vendor shall have the right, for the purpose of filing any Tax Returns as required under this Agreement and for the purpose of contesting any assessment or reassessment for Tax in accordance with the provisions of Article 6 to inspect and make copies of the same at the expense of the Vendor during normal business hours and upon reasonable notice.
- (b) After Closing, the Purchaser agrees to cause the Corporation and the Subsidiaries to cooperate in a reasonable manner with the Vendor and the Vendor's agents, representatives and auditors for the purposes of the preparation of the Vendor's accounts and tax returns and in providing all information required for legal, filing and regulatory purposes. Without limiting the generality of the foregoing, the Purchaser shall, upon reasonable notice, cause the Corporation and the Subsidiaries to provide the Vendor, its agents, representatives and auditors reasonable access during normal business hours to all Books and Records necessary for the preparation of such accounts and tax returns and for gathering the required information for legal, filing and regulatory purposes together with the assistance of those employees of the Corporation and the Subsidiaries that the Vendor may reasonably request; provided that the Vendor shall pay proper and reasonable compensation to the Corporation and the Subsidiaries for the assistance of such employees.

#### **4.2.3 Purchaser's Meeting**

In a timely and expeditious manner, the Purchaser shall:

- (a) prepare, in consultation with the Vendor, and file the Proxy Circular (which shall be in a form satisfactory to the Vendor, acting reasonably), together with any other documents required by Applicable Law, in all jurisdictions where the Proxy Circular is required to be filed and mail the Proxy Circular, in accordance with all Applicable Law, in and to all jurisdictions where the Proxy Circular is required to be mailed, complying in all material respects with all Applicable Law on the date of the mailing thereof and in the form and containing the information required by all Applicable Law, including all applicable corporate and securities legislation and requirements, and not containing any misrepresentation (as defined under applicable securities legislation and requirements) with respect thereto, other than with respect to any information relating to and provided by the Vendor;

- (b) convene the Purchaser's Meeting as soon as practicable, and use commercially reasonable efforts to convene the Purchaser's Meeting no later than December 31, 2004 or such later or earlier date that may be mutually agreed upon with Vendor and solicit proxies to be voted at the Purchaser's Meeting in favour of the Agreement;
- (c) provide notice to the Vendor of the Purchaser's Meeting and allow the Vendor to attend the Purchaser's Meeting;
- (d) conduct the Purchaser's Meeting in accordance with the *Business Corporations Act* (Ontario), the by-laws of the Purchaser and as otherwise required by Applicable Law; and
- (e) take all such actions as may be required under the *Business Corporations Act* (Ontario) in connection with the transactions contemplated by this Agreement.

#### 4.2.4 Amendments

In a timely and expeditious manner, the Purchaser shall prepare (in consultation with the Vendor) and file any mutually agreed (or as otherwise required by Applicable Law) amendments or supplements to the Proxy Circular (which amendments or supplements shall be in a form satisfactory to the Vendor, acting reasonably) with respect to the Purchaser's Meeting and mail such amendments or supplements, in accordance with all Applicable Law, in and to all jurisdictions where such amendments or supplements are required to be mailed, complying in all material respects with all Applicable Law on the date of the mailing thereof.

#### 4.2.5 Articles of Amendment

The Purchaser shall prior to the Closing Time file with the Director the Articles of Amendment substantially in the form annexed hereto as Exhibit D.

#### 4.2.6 Certain Actions Prohibited

Other than in contemplation of or as required to give effect to the transactions contemplated by this Agreement, the Purchaser shall not, without the prior written consent of the Vendor, which consent shall not be unreasonably withheld or delayed, directly or indirectly do or permit to occur any of the following:

- (a) issue, sell, pledge, lease, dispose of, encumber or create any Encumbrance on or agree to issue, sell, pledge, lease, dispose of, or encumber or create any Encumbrance on, or permit a Purchaser Subsidiary to issue, sell, pledge, lease, dispose of, encumber or create any Encumbrance on or agree to issue, sell, pledge, lease, dispose of, or encumber or create any Encumbrance on, any shares of, or any options, warrants, calls, conversion privileges or rights of any kind to acquire any shares of, the Purchaser or any of the Purchaser Subsidiaries, other than the issue of the Purchaser Common Shares pursuant to the exercise of options to purchase the Purchaser Common Shares that are outstanding on the date hereof in accordance with their terms as of the date hereof;

- (b) amend or propose to amend the Articles or by-laws of the Purchaser or any of the Purchaser Subsidiaries or any of the terms of options to purchase Purchaser Common Shares that are outstanding on the date hereof as they exist at the date of this Agreement;
- (c) split, combine or reclassify any of the shares of the Purchaser or any of the Purchaser Subsidiaries or declare, set aside or pay any dividend or other distribution payable in cash, securities, property or otherwise with respect to the shares of the Purchaser;
- (d) redeem, purchase or offer to purchase, or permit any of the Purchaser Subsidiaries to redeem, purchase or offer to purchase, any Purchaser Common Shares and any options or obligations or rights under existing Contracts, agreements and commitments;
- (e) reorganize, amalgamate or merge the Purchaser or any of the Purchaser Subsidiaries with any other person other than another Purchaser Subsidiary;
- (f) acquire or agree to acquire any corporation or other entity (or material interest therein) or division of any corporation or other entity, or permit any of the Purchaser Subsidiaries to acquire or agree to acquire any corporation or other entity (or material interest therein) or division of any corporation or other entity other than another Purchaser Subsidiary or in connection with a transaction otherwise permitted by this Agreement;
- (g) incur, authorize, agree or otherwise become committed to provide Guarantees or incur, authorize, agree or otherwise become committed for any Debt Instrument, or permit any of the Purchaser Subsidiaries to incur, authorize, agree or otherwise become committed to provide Guarantees or incur, authorize, agree or otherwise become committed for any Debt Instrument; or
- (h) except as required by generally accepted accounting principles or any Applicable Law, make any changes to the existing accounting practices of the Purchaser or make any material Tax election inconsistent with past practice.

#### **4.3 Mutual Covenants**

Each Party hereby covenants and agrees with the other Parties as follows:

##### **4.3.1 Cooperation**

The Parties shall cooperate fully in good faith with each other and their respective Representatives in connection with any steps required to be taken as part of their respective obligations under this Agreement.

##### **4.3.2 Consents and Approvals**

Commencing forthwith after the date hereof the Parties shall use all reasonable efforts to obtain, at or prior to the Closing Time, all Consents and Regulatory Approvals.

#### 4.3.3 Subsection 85(1) Election

The Vendor and the Purchaser and the Minority Vendor and the Purchaser shall execute and file joint elections pursuant to subsection 85(1) of the Income Tax Act and any similar provision of provincial law as necessary in prescribed form and within the prescribed time. These joint elections shall provide that the amount (the “**Elected Amount**”) elected to be the proceeds of disposition to the Vendor and the Minority Vendor and the cost of acquisition to the Purchaser of the Minority Shares, Synergex Preference Shares and the Synergex Common Shares shall be an amount equal to their respective adjusted cost bases to the Vendor and Minority Vendor of such shares, or such other amount as the parties shall agree upon.

### ARTICLE 5 CONDITIONS OF CLOSING

#### 5.1 Mutual Conditions

The respective obligations of the Vendor, Minority Vendor and the Purchaser to complete the transactions contemplated herein are subject to the fulfilment of the following conditions at or before the Closing Time or such other time as is specified below:

- (a) the Agreement, with or without amendment, shall have been approved at the Purchaser’s Meeting by the Minority Shareholders in accordance with the provisions of the *Business Corporations Act* (Ontario) and the requirements of any applicable regulatory authority;
- (b) the Articles of Amendment shall be filed in form and substance satisfactory to the Vendor, acting reasonably;
- (c) there shall not be in force any Applicable Law or Order, and there shall not have been any action taken under any Applicable Law or by any Governmental Authority or other regulatory authority, that makes it illegal or otherwise directly or indirectly restrains, enjoins or prohibits the transactions contemplated herein in accordance with the terms hereof or results or could reasonably be expected to result in an Order or assessment of damages, directly or indirectly, relating to the Agreement which has, or could reasonably be expected to have, a Material Adverse Effect on the Purchaser or the Corporation;
- (d) the TSX Venture Exchange shall have conditionally approved the listing thereon of the Purchaser Common Shares to be issued pursuant to the Agreement as of the Closing Date, or as soon as possible thereafter, subject only to compliance with the usual requirements of the TSX Venture Exchange;
- (e) (A) all Consents, Regulatory Approvals, exemptions and Orders of, and any registrations and filings with, any Governmental Authority and the expiry of any waiting periods, in connection with, or required to permit, the completion of the transactions contemplated herein, and (B) all third person and other Consents, Regulatory Approvals, exemptions, Orders, Contracts, indentures, arrangements and amendments and modifications to Contracts, indentures or arrangements, the failure of which to obtain or the non-expiry of which would, or could reasonably be expected to have, a Material Adverse Effect on the Purchaser or the

Corporation or materially impede the completion of the transactions contemplated herein, shall have been obtained or received on terms that are reasonably satisfactory to each Party; and

- (f) this Agreement shall not have been terminated pursuant to Section 2.9.

The foregoing conditions are for the mutual benefit of the Parties and may be waived in respect of a Party, in whole or in part, by such Party in writing at any time. If any of such conditions shall not be complied with or waived as aforesaid on or before the Closing Time or, if earlier, the date required for the performance thereof, then, subject to Section 5.5 hereof, either Party may terminate this Agreement by written notice to the other Party in circumstances where the failure to satisfy any such condition is not the result, directly or indirectly, of a breach of this Agreement by such rescinding Party.

## **5.2 Conditions for the Benefit of the Purchaser**

The transactions herein contemplated, including the sale and purchase of the Purchased Shares and the Minority Shares in accordance with the terms of this Agreement, are subject to the conditions precedent set out in this Section 5.2, each of which is hereby declared to be for the exclusive benefit of the Purchaser. Each of such conditions is to be satisfied in full at or prior to the Closing Time. The Vendor covenants and agrees to use its best efforts to cause each of such conditions to be fulfilled at or prior to the Closing Time.

### **5.2.1 Representations, Warranties and Covenants of the Vendor and the Minority Vendor**

- (a) All representations and warranties of the Vendor and the Minority Vendor made in or pursuant to this Agreement shall have been true and correct in all material respects on the date hereof and shall be true and correct in all material respects at the Closing Time with the same force and effect as if such representations and warranties had been made at and as of the Closing Time; provided that all representations and warranties of the Vendor made in or pursuant to this Agreement that contain an express materiality qualification shall have been true and correct in all respects on the date hereof and shall be true and correct in all respects at the Closing Time as if such representations and warranties had been made at and as of the Closing Time.
- (b) Each of the Vendor and the Minority Vendor shall have performed or complied with, in all material respects, all obligations, covenants and agreements contained in this Agreement to be performed by such Party at or prior to the Closing Time.
- (c) As evidence of the satisfaction of the conditions in paragraphs 5.2.1(a) and (b), the Vendor and the Minority Vendor shall deliver to the Purchaser at the Closing Time certificates of the Vendor and the Minority Vendor confirming the matters in paragraphs 5.2.1(a) and (b) and to the effect that as of the Closing Time all other conditions set forth in this Section 5.2 have been satisfied. The certificates shall be signed by the Vendor and Minority Vendor. Notwithstanding the foregoing, the receipt of such certificate and the completion of the transactions herein contemplated shall not constitute a waiver (in whole or in part) of, or have

the effect of modifying or qualifying in any way, any of the representations and warranties of the Vendor or Minority Vendor made (or, for purposes of Section 6.1, deemed to have been made) in or pursuant to this Agreement, each of which shall survive the Closing and remain in full force and effect for the benefit of the Purchaser as provided in Section 3.6.

#### 5.2.2 Legal Opinion

A legal opinion of Fraser Milner Casgrain LLP or legal counsel for the Corporation, dated the Closing Date and being in a form approved by the Purchaser and Vendor, acting reasonably, shall have been received by the Purchaser at the Closing Time. In rendering such opinion, counsel may rely as to the laws of jurisdictions other than the Province of Ontario upon the opinions of counsel qualified to practise in such jurisdictions satisfactory to the Purchaser.

#### 5.2.3 No Adverse Change

During the Interim Period, there shall have been no change in the Corporation's Business, or in the operations, affairs, prospects or condition (financial or otherwise) of the Corporation or any Subsidiary which, in the reasonable opinion of the Purchaser, would have a Material Adverse Effect on the Corporation or any Subsidiary or on the Corporation's Business.

#### 5.2.4 Consents

All Consents necessary to keep the Material Contracts, in full force and effect and to enable the Corporation and the relevant Subsidiary to continue to enjoy all rights and benefits thereunder shall have been granted, obtained and received unconditionally or on terms satisfactory to the Purchaser, acting reasonably.

#### 5.2.5 Regulatory Approvals

All Regulatory Approvals required to keep the Material Licenses held by the Corporation and the Subsidiaries in good standing and to otherwise enable the Corporation and the Subsidiaries to continue to enjoy all rights and benefits thereunder and to carry on the Corporation's Business after the Closing in the same manner as it is currently carried on shall have been granted, obtained and received unconditionally or on terms satisfactory to the Purchaser, acting reasonably.

#### 5.2.6 No Legal Proceedings

No Order shall have been made and no Legal Proceeding shall have been commenced or shall be pending or threatened against the Corporation, any Subsidiary or either Party which adversely affects or would adversely affect the title of the Vendor to the Purchased Shares or the Minority Shares or which enjoins, restricts or prohibits, or which asserts a claim or seeks a remedy that would have the effect of enjoining, restricting or prohibiting the completion of the transactions herein contemplated, or which, in the result, could prohibit or materially restrict the Corporation or any Subsidiary from carrying on the Corporation's Business in the ordinary course after Closing.

#### 5.2.7 Resignations

The Vendor shall deliver written resignations of all directors and officers of the Corporation and each Subsidiary, other than for those directors and officers identified by the Vendor and approved by the Purchaser, together with an executed mutual release from each of them with respect to all claims against the Corporation or any Subsidiary up to the Closing Time, in a form approved by the Purchaser and Vendor, acting reasonably.

#### 5.2.8 Closing Documents

The Purchaser shall have received such other opinions, agreements, certificates, affidavits, statutory declarations, instruments of transfer and other documentation reasonably required by the Purchaser to implement the transactions herein contemplated, all of which shall be satisfactory in form and substance to counsel for the Purchaser, acting reasonably.

#### 5.2.9 Employment Agreements

Employment agreements satisfactory in form and substance to the Purchaser shall have been entered into by the Corporation with the Vendor, the Minority Vendor, and with other key personnel of the Corporation and each applicable Subsidiary who are identified by the Corporation for such purpose and agreed to by the Purchaser.

#### 5.2.10 Non-Competition Agreements

Non-Competition Agreements satisfactory in form and substance to the Purchaser shall have been entered into by the Vendor and Minority Vendor with the Purchaser.

#### 5.2.11 Working Capital

The Closing Working Capital shall be at least \$3,000,000.

#### 5.2.12 No Loans Receivable

There shall be no loans receivable from or loans payable to any Interested Person of the Corporation or the Subsidiaries. All loans payable to any Interested Person of the Corporation or the Subsidiaries shall have been repaid or exchanged for Series A Preferred Shares. The Purchaser shall have received unaudited consolidated financial statements or other evidence of such conditions being met, satisfactory to the Purchaser.

### 5.3 **Conditions for the Benefit of the Vendor and the Minority Vendor**

The transactions herein contemplated, including the sale and purchase of the Purchased Shares in accordance with the terms of this Agreement, are subject to the conditions precedent set out in this Section 5.3, each of which is hereby declared to be for the exclusive benefit of the Vendor except the conditions precedent set out in Section 5.3.1 and Section 5.3.2 which shall be for the benefit of both the Vendor and the Minority Vendor. Each of such conditions is to be satisfied in full at or prior to the Closing Time. The Purchaser covenants and agrees to use its best efforts to cause each of such conditions to be fulfilled at or prior to the Closing Time.

**5.3.1      Truth of Representations and Warranties of the Purchaser**

- (a) The representations and warranties of the Purchaser made in or pursuant to this Agreement shall have been true and correct in all material respects on the date hereof and shall be true and correct in all material respects at the Closing Time with the same force and effect as if such representations and warranties had been made at and as of the Closing Time; provided that all representations and warranties of the Purchaser made in or pursuant to this Agreement that contain an express materiality qualification shall have been true and correct in all respects on the date hereof and shall be true and correct in all respects at the Closing Time as if such representations and warranties had been made at and as of the Closing Time.
- (b) The Purchaser shall have performed or complied with, in all material respects, all obligations, covenants and agreements contained in this Agreement to be performed by it at or prior to the Closing Time.
- (c) As evidence of the satisfaction of the conditions in paragraph 5.3.1(a) and (b), the Purchaser shall deliver to the Vendor at the Closing Time a certificate of the Purchaser confirming the matters in paragraphs 5.3.1(a) and (b) and to the effect that as of the Closing Time all other conditions set forth in this Section 5.3 have been satisfied. The certificate shall be signed by the President and by the Secretary of the Purchaser. Notwithstanding the foregoing, the receipt of such certificate and the completion of the transactions herein contemplated shall not constitute a waiver (in whole or in part) of, or be interpreted to modify or qualify in any way, any of the representations and warranties of the Purchaser made in or pursuant to this Agreement, each of which shall survive the Closing and remain in full force and effect for the benefit of the Vendor as provided in Section 3.7.

**5.3.2      Legal Opinion**

A legal opinion of Goodman and Carr LLP dated the Closing Date and in a form approved by the Vendor and Purchaser, acting reasonably, shall have been received by the Vendor and the Minority Vendor at the Closing Time. In rendering such opinion, counsel may rely as to the laws of jurisdictions other than the Province of Ontario upon the opinions of counsel qualified to practise in such jurisdictions satisfactory to the Vendor.

**5.3.3      No Adverse Change**

During the Interim Period, there shall have been no change in the Purchaser's Business, or in the operations, affairs, prospects or condition (financial or otherwise) of the Purchaser or any Purchaser Subsidiary which, in the reasonable opinion of the Vendor, would have a Material Adverse Effect on the Purchaser or any Purchaser Subsidiary or on the Purchaser's Business.

**5.3.4      Regulatory Approvals**

All Regulatory Approvals applicable to the Purchaser, including approval of the TSX Venture Exchange and the Securities Authorities, shall have been obtained and evidence of each such approval, satisfactory to the Vendor, shall have been provided to the Vendor.

### 5.3.5 No Legal Proceedings

No Order shall have been made and no Legal Proceeding shall have been commenced or shall be pending or threatened against the Purchaser, any Purchaser Subsidiary or either Party which enjoins, restricts or prohibits, or which asserts a claim or seeks a remedy that would have the effect of enjoining, restricting or prohibiting the completion of the transactions herein contemplated, or which, in the result, could prohibit or materially restrict the Purchaser or any Purchaser Subsidiary from carrying on the Purchaser's Business in the ordinary course after Closing.

### 5.3.6 Shareholder Approval

The Minority Shareholders shall have approved this Agreement at the Purchaser's Meeting and evidence of such approval, satisfactory to the Vendor, shall have been provided to the Vendor.

### 5.3.7 Closing Documents

The Vendor shall have received such other opinions, agreements, certificates, affidavits, statutory declarations, instruments of transfer and other documentation reasonably required by the Vendor to implement the transactions herein contemplated, all of which shall be satisfactory in form and substance to counsel for the Vendor, acting reasonably.

## 5.4 Waiver

Any Party may waive, in whole or in part, by notice to the other Parties, any condition set forth in this Article 5 which is for its benefit. No waiver by a Party of any condition, in whole or in part, shall operate as a waiver of any other condition. The waiver in whole or in part by either Party of any condition requiring the accuracy of a representation or warranty or the performance of or compliance with a covenant shall not affect the right of that Party to indemnification under Article 6 for any Loss suffered or incurred by that Party based upon that misrepresentation or breach of warranty or upon the failure to observe or perform that covenant.

## 5.5 Failure to Satisfy Conditions

If any condition set forth in Sections 5.1, 5.2 or 5.3 is not satisfied at the Closing Time, or if it becomes apparent that any such condition cannot be satisfied at the Closing Time, the Party entitled to the benefit of such condition (the "**First Party**") may terminate this Agreement by notice in writing to the other Parties and in such event:

- (a) unless the other Parties can show that the condition or conditions which have not been satisfied and for which the First Party has terminated this Agreement are reasonably capable of being performed or caused to be performed by the First Party or have not been satisfied by reason of a default by the First Party hereunder, the First Party shall be released from all obligations hereunder; and
- (b) unless the First Party can show that the condition or conditions which have not been satisfied and for which the First Party has terminated this Agreement are reasonably capable of being performed or caused to be performed by another

Party or have not been satisfied by reason of a default by the other Parties hereunder, then the other Parties shall also be released from all obligations hereunder;

provided however that no release of obligations under this Section 5.5 shall release any Party from any obligation under Section 3.4, Subsection 4.2.1, Section 7.2 or Section 7.5.

### **5.6      Damage or Expropriation**

If, prior to the Closing Time, all or any substantial portion of the property or assets of the Corporation or a Subsidiary are destroyed or substantially damaged by fire or other hazard or shall be expropriated or seized by any Governmental Authority or any other person in accordance with Applicable Law, or if notice of any such expropriation or seizure shall have been given in accordance with Applicable Law, the Purchaser shall have the option, exercisable by notice to the Vendor and the Minority Vendor given prior to the Closing Date:

- (a) to terminate this Agreement and not complete the transactions herein contemplated, in which case the Purchaser shall be released from all obligations hereunder except those set forth in Section 3.4, Subsection 4.2.1, Section 7.2 and Section 7.5 as of and from the giving of such notice; or
- (b) to complete the transactions herein contemplated with a reduction of the Purchase Price by the net amount equal to the cost of repair, or, if expropriated or seized or if destroyed or damaged beyond repair, by the net amount equal to the replacement cost of the property or assets so expropriated, seized, damaged or destroyed, after taking into account all proceeds of any insurance or compensation for such destruction, damage, expropriation or seizure received by the Corporation.

If any loss, damage or claim for which insurance is carried by the Corporation or a Subsidiary arises during the Interim Period, the Purchaser, as a condition of Closing, shall be entitled to be satisfied that the insurers recognize the claim of the Corporation or the Subsidiary for payment in accordance with the terms of the relevant insurance policies.

## **ARTICLE 6**

### **INDEMNIFICATION**

#### **6.1      Indemnification by Vendor**

The Vendor shall indemnify, defend and save harmless the Purchaser and each of its Representatives from and against any and all Loss suffered or incurred by them, as a direct or indirect result of, or arising in connection with or related in any manner whatever to:

- (a) subject to Section 3.6 and the limitations set forth in paragraph 6.13(a), and excluding any forecasts, projections or estimates provided by the Vendor, any misrepresentation or breach of warranty made or given by the Vendor in this Agreement, in any Closing Document or in any other document delivered pursuant to this Agreement or any Closing Document;

- (b) any failure by the Vendor to observe or perform any covenant or obligation contained in this Agreement, any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document;

and, without limiting the generality of the provisions of paragraphs 6.1(a) and (b), the indemnity provided for in this Section 6.1 shall also extend to:

- (c) any Claim against the Corporation or any Subsidiary instituted prior to or after the Closing Time which is based on an act or omission of the Vendor or the Corporation or a Subsidiary prior to the Closing Time; and
- (d) any Taxes required to be paid by the Corporation or any Subsidiary relating to any period ending on or before the Closing Date, in excess of the Taxes accrued as a liability on the Corporation's Financial Statements, so long as the liability for such Taxes is not the result of any amendment to or refiling of Tax Returns by the Corporation or a Subsidiary after the Closing Date.

For greater certainty, nothing in this section 6.1 is meant to derogate from the rights of indemnification in the event there is a misrepresentation pursuant to subsection 3.1.28 hereof. Notwithstanding the Closing and the delivery of the certificate pursuant to paragraph 5.2.1(c), for the purposes of the Purchaser's right to be indemnified as provided in this Section 6.1 (but subject to the limitations in Section 6.13), the said certificate shall be deemed to repeat the representations and warranties of the Vendor made in this Agreement on and as of the Closing Date as if then made without qualification as to materiality, except for the representations and warranties expressly so qualified in this Agreement.

## **6.2 Indemnification by Minority Vendor**

The Minority Vendor shall indemnify, defend and save harmless the Purchaser and each of its Representatives from and against any and all Loss suffered or incurred by them, as a direct or indirect result of, or arising in connection with or related in any manner whatever to:

- (a) subject to Section 3.6 and the limitations set forth in paragraph 6.13(a), any misrepresentation or breach of warranty made or given by the Minority Vendor in this Agreement pursuant to Article 3, in any Closing Document or in any other document delivered pursuant to this Agreement or any Closing Document; and
- (b) any failure by the Minority Vendor to observe or perform any covenant or obligation contained in this Agreement, any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document.

Notwithstanding the Closing and the delivery of the certificate pursuant to paragraph 5.2.1(c), for the purposes of the Purchaser's right to be indemnified as provided in this Section 6.2 (but subject to the limitations in Section 6.13), the said certificate shall be deemed to repeat the representations and warranties of the Minority Vendor made in this Agreement on and as of the Closing Date as if then made without qualification as to materiality, except for the representations and warranties expressly so qualified in this Agreement.

### **6.3 Indemnification by the Purchaser**

The Purchaser shall indemnify, defend and save harmless the Vendor and the Minority Vendor and each of the Vendor's Representatives from and against any and all Loss suffered or incurred by them, as a direct or indirect result of, or arising in connection with or related in any manner whatsoever to:

- (a) subject to Section 3.7 and the limitations set forth in paragraph 6.13(b), any misrepresentation or breach of any warranty made or given by the Purchaser in this Agreement, in any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document provided that the Vendor is not aware as at the date hereof or at Closing of such misrepresentation or breach of any warranty made or given by the Purchaser in this Agreement; or
- (b) any failure by the Purchaser to observe or perform any covenant or obligation contained in this Agreement, in any Closing Document or in any document delivered pursuant to this Agreement or any Closing Document.

Notwithstanding the Closing and the delivery of the certificate pursuant to paragraph 5.3.1(c), for the purposes of the Vendor's and Minority Vendor's right to be indemnified as provided in this Section 6.3 (but subject to the limitations in Section 6.13), the said certificate shall be deemed to repeat the representations and warranties of the Purchaser made in this Agreement on and as of the Closing Date as if then made without qualification as to materiality, except for the representations and warranties expressly so qualified in this Agreement.

### **6.4 Agency for Representatives**

Each Party agrees that it accepts each indemnity in favour of any of its Representatives as agent and trustee of that Representative. Each Party agrees that the other Party may enforce an indemnity in favour of any of that Party's Representatives on behalf of that Representative.

### **6.5 Notice of Third Party Claims**

If an Indemnitee receives notice of the commencement or assertion of any Third Party Claim, the Indemnitee shall forthwith give the Indemnitor notice thereof. Such notice to the Indemnitor shall describe the Third Party Claim in reasonable detail and shall indicate, if reasonably practicable, the estimated amount of the Loss that has been or may be sustained by the Indemnitee.

### **6.6 Defence of Third Party Claims**

The Indemnitor may participate in or assume the defence of any Third Party Claim by forthwith giving notice to that effect to the Indemnitee after receiving notice of that Third Party Claim (the "Notice Period"). The Indemnitor's right to do so shall be subject to the rights of any insurer or other party who has potential liability in respect of that Third Party Claim. The Indemnitor shall pay all of its own expenses of participating in or assuming such defence. The Indemnitee shall co-operate in good faith in the defence of each Third Party Claim, even if the defence has been assumed by the Indemnitor and may participate in such defence assisted by counsel of its own choice at its own expense. If the Indemnitee has not received notice within

the Notice Period that the Indemnitor has elected to assume the defence of such Third Party Claim, the Indemnitee may, at its option, elect to settle or compromise the Third Party Claim or assume such defence, assisted by counsel of its own choosing and the Indemnitor shall be liable for all reasonable costs and expenses paid or incurred in connection therewith and any Loss suffered or incurred by the Indemnitee with respect to such Third Party Claim. If the Indemnitor elects to assume the defence of a Third Party Claim under this Section 6.6, the Indemnitor shall not have the right thereafter to contest its liability for such claim.

#### **6.7 Assistance for Third Party Claims**

The Indemnitor and the Indemnitee will use all reasonable efforts to make available to the Party which is undertaking and controlling the defence of any Third Party Claim (the “Defending Party”),

- (a) those employees and other persons whose assistance, testimony or presence is necessary to assist the Defending Party in evaluating and in defending any Third Party Claim; and
- (b) all documents, records and other materials in the possession of such Party reasonably required by the Defending Party for its use in defending any Third Party Claim,

and shall otherwise cooperate with the Defending Party. The Indemnitor shall be responsible for all reasonable expenses associated with making such documents, records and materials available and for all reasonable expenses of any employees or other persons made available by the Indemnitee to the Indemnitor hereunder, which expense shall not exceed the actual cost to the Indemnitee associated with such employees and other persons.

#### **6.8 Settlement of Third Party Claims**

If an Indemnitor elects to assume the defence of any Third Party Claim as provided in Section 6.6, the Indemnitor shall not be liable for any legal expenses incurred by the Indemnitee in connection with the defence of such Third Party Claim following the receipt by the Indemnitee of notice of such assumption. However, if the Indemnitor fails to take reasonable steps necessary to defend diligently such Third Party Claim forthwith after receiving notice from the Indemnitee that the Indemnitee believes on reasonable grounds that the Indemnitor has failed to take such steps, the Indemnitee may, at its option, elect to assume the defence of and to negotiate, settle or compromise the Third Party Claim assisted by counsel of its own choosing and the Indemnitor shall also be liable for all reasonable costs and expenses paid or incurred in connection therewith. The Indemnitor shall not, without the prior written consent of the Indemnitee, such consent not to be unreasonably withheld or delayed, enter into any compromise or settlement of a Third Party Claim, which would lead to liability or create any other obligation, financial or otherwise, on the Indemnitee.

#### **6.9 Direct Claims**

Any Direct Claim shall be asserted by giving the Indemnitor reasonably prompt written notice thereof, but in any event not later than 60 days after the Indemnitee becomes aware of such Direct Claim. The Indemnitor shall then have a period of 30 days within which to respond

in writing to such Direct Claim. If the Indemnitor does not so respond within such 30 day period, the Indemnitor shall be deemed to have rejected such Claim, and in such event the Indemnitee shall be free to pursue such remedies as may be available to the Indemnitee.

#### **6.10 Failure to Give Timely Notice**

A failure to give timely notice as provided in this Article 6 shall not affect the rights or obligations of any Party except and only to the extent that, as a result of such failure, any Party which was entitled to receive such notice was deprived of its right to recover any payment under its applicable insurance coverage or was otherwise directly and materially damaged as a result of such failure.

#### **6.11 Reductions and Subrogation**

If the amount of any Loss at any time subsequent to the making of an Indemnity Payment in respect of that Loss is reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other person, the amount of such reduction (less any costs, expenses (including Taxes) or premiums incurred in connection therewith), shall promptly be repaid by the Indemnitee to the Indemnitor. Upon making a full Indemnity Payment, the Indemnitor shall, to the extent of such Indemnity Payment, be subrogated to all rights of the Indemnitee against any third party that is not an Affiliate of the Indemnitee in respect of the Loss to which the Indemnity Payment relates. Until the Indemnitee recovers full payment of its Loss, any and all claims of the Indemnitor against any such third party on account of such Indemnity Payment shall be postponed and subordinated in right of payment to the Indemnitee's rights against such third party. Without limiting the generality or effect of any other provision hereof, the Indemnitee and Indemnitor shall duly execute upon request all instruments reasonably necessary to evidence and perfect such postponement and subordination.

#### **6.12 Payment and Interest**

All Losses shall bear interest at a rate per annum equal to the Prime Rate, calculated and payable monthly, both before and after judgment, with interest on overdue interest at the same rate, from the date that the Indemnitee disbursed funds, suffered damages or losses or incurred a loss, liability or expense in respect of a Loss, to the date of payment by the Indemnitor to the Indemnitee.

#### **6.13 Limitation**

- (a) No claims may be asserted by the Purchaser or the Purchaser's Representatives under paragraphs 6.1(a) and 6.2(a) unless and until the aggregate of the Losses of the Purchaser and the Purchaser's Representatives collectively, in respect of such Claims exceeds Fifty Thousand Dollars (\$50,000) in the aggregate, in which event the amount of all such Loss including such Fifty Thousand Dollar (\$50,000) amount may be asserted. Any and all such recovered Losses may not exceed, in the aggregate, the sum of One Million Dollars (\$1,000,000). The Vendor may, at his discretion, satisfy his indemnification obligations on a dollar for dollar basis in cash, or by returning an equivalent amount of the Purchaser's book value of Series A Preferred Shares, or by returning an equivalent market value of the

Purchaser Common Shares to the Purchaser based on a price per share equal to the "market price", within the meaning of Section 183 of the Regulation to the *Securities Act* (Ontario). If such "market price" is undeterminable, the independent directors of the Purchaser shall, acting reasonably, determine the market value of such securities. Any amount owing under this Section 6.13 after returning all of the Series A Preferred Shares and Purchaser Common Shares held by the Vendor shall be satisfied in cash.

For the purposes of the forgoing, with respect to any Purchaser Common Shares sold by the Vendor and/or Minority Vendor other than on an arm's length basis through normal stock market trading in respect of such shares, he will be deemed to have received the greater of (i) the actual consideration per share received by him, and (ii) a price per share equal to the "market price", within the meaning of Section 183 of the Regulation to the *Securities Act* (Ontario) calculated as at the date of such sale. With respect to any Series A Preferred Shares sold by the Vendor other than on a bona fide arm's length basis, he will be deemed to have received the aggregate redemption price for the shares, including any accrued and unpaid dividends thereon at the time of such sale. For such purposes, a sale of Series A Preferred Shares shall be considered to have been on a bona fide arm's length basis only if (i) the purchaser of such shares is fully at arm's length to the Vendor and is purchasing as principal and not as agent, and (ii) the Vendor does not, and is not entitled to, receive any direct or indirect supplementary consideration (whether or not in the nature of a tangible or intangible asset, money, property, securities or other benefit).

- (b) No Claim may be asserted by the Vendor, the Minority Vendor or the Vendor's Representatives under paragraph 6.3(a) unless and until the aggregate of the Losses of the Vendor, the Minority Vendor and the Vendor's Representatives collectively, in respect of such Claims exceeds Fifty Thousand Dollars (\$50,000) in the aggregate, in which event the amount of all such Loss including such Fifty Thousand Dollar (\$50,000) amount may be recovered by the Vendor and the Minority Vendor. Any and all such recovered Losses may not exceed, in the aggregate, the sum of One Million Dollars (\$1,000,000).

#### 6.14 Additional Rules and Procedures

- (a) If any Third Party Claim is of a nature such that the Indemnitee is required by Applicable Law to make a payment to any person (a "**Third Party**") with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnitee may make such payment and the Indemnitor shall, forthwith after demand by the Indemnitee, reimburse the Indemnitee for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnitor to the Indemnitee, the Indemnitee shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnitor.
- (b) The Indemnitee and the Indemnitor shall co-operate fully with each other with respect to Third Party Claims, shall keep each other fully advised with respect

thereto (including supplying copies of all relevant documentation promptly as it becomes available) and shall each designate a senior officer who will keep himself informed about and be prepared to discuss the Third Party Claim with his counterpart and with counsel at all reasonable times.

## ARTICLE 7

### MISCELLANEOUS

#### 7.1 **Further Assurances**

Each Party shall from time to time execute and deliver or cause to be executed and delivered all such further documents and instruments and do or cause to be done all further acts and things as any other Party may, before or after the Closing Time, reasonably require as being necessary or desirable in order to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement or any provision hereof.

#### 7.2 **Public Announcements**

Except to the extent required by Applicable Law, including, without limitation the continuous disclosure obligations of the Purchaser imposed by Securities Authorities, each Party agrees that no disclosure or public announcement regarding this Agreement or the transactions contemplated hereby shall be made by either Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed.

#### 7.3 **Notices**

- (a) Any notice, direction or other communication (in this Section, a "Notice") required or permitted to be given to a Party shall be in writing and shall be sufficiently given if delivered personally, mailed or transmitted by facsimile as follows:
  - (i) in the case of the Vendor, at:

Synergex Group Inc.

6175 Kenway Drive

Mississauga, Ontario

L5T 2L3

Attention: David Aiello  
 Fax No.: (905) 461-0036

with a copy to:

Fraser Milner Casgrain LLP  
1 First Canadian Place  
100 King Street West  
Toronto, Ontario  
M5X 1B2

Attention: Leslie Johnson  
Fax No.: (416) 863-4592

(ii) in the case of the Minority Vendor, at:

Matthew Reiter  
6559 Glenfern Ave.  
Kilbride, Ontario  
L0P 1G0

(iii) in the case of the Purchaser, at:

Carma Financial Services Corporation  
6225 Kenway Drive  
Mississauga, Ontario  
L5T 2L3

Attention: John L. Smith  
Fax No.: (905) 740-3201

with a copy to:

Goodman and Carr LLP  
200 King Street West  
Suite 2300  
Toronto, Ontario  
M5H 3W5

Attention: Gary Litwack  
Fax No.: (416) 595-0567

(b) Any Notice delivered personally, shall be deemed to have been given and received on the day on which it was delivered, if delivered prior to 5:00 p.m. (recipient's time) on a Business Day; otherwise on the first Business Day thereafter. Any Notice mailed shall be deemed to have been given and received on the third Business Day after it was mailed, provided that if the Party giving the Notice knows or ought reasonably to know of disruptions in the postal system that might affect the delivery of mail, such notice shall not be mailed but shall be given by personal delivery or facsimile transmission. Any Notice transmitted by facsimile shall be deemed to have been given and received on the day of its

transmission if the machine from which it was sent receives the answerback code of the Party to whom it was sent prior to 5:00 p.m. (recipient's time) on such day; otherwise on the first Business Day thereafter.

- (c) Either Party may change its address for service from time to time by Notice given to the other Party in accordance with the foregoing provisions.

#### **7.4 Time of the Essence**

Time shall be of the essence of this Agreement.

#### **7.5 Costs and Expenses**

Each Party shall be responsible for all costs and expenses (including finder fees, valuations and commissions, as well as the fees and disbursements of legal counsel, bankers, investment bankers, accountants, brokers and other advisors) incurred by it in connection with this Agreement and the transactions contemplated herein.

#### **7.6 Effect of Closing**

All provisions of this Agreement shall remain in full force and effect notwithstanding the Closing, subject only to the limitation periods specified in Sections 3.6 and 3.6 and the related indemnities in Article 6.

#### **7.7 Counterparts**

This Agreement may be executed in counterparts, each of which shall be deemed to be an original and both of which together shall constitute one and the same instrument. To evidence its execution of an original counterpart of this Agreement, a Party may send a copy of its original signature on the execution page hereof to the other Party by facsimile transmission and such transmission shall constitute delivery of an executed copy of this Agreement to the receiving Party.

#### **7.8 Assignment**

This Agreement may not be assigned by either Party without the prior written consent of the other Party.

#### **7.9 Parties in Interest**

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns.

### 7.10 Third Parties

Except as specifically set forth or referred to herein, nothing herein is intended or shall be construed to confer upon or give to any person, other than the Parties and their respective successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

**IN WITNESS WHEREOF** this Agreement has been executed by the parties hereto.

**SIGNED, SEALED AND DELIVERED** )  
in the presence of: )



Witness Nick Blasutto )



**DAVID AIELLO**)

**SIGNED, SEALED AND DELIVERED** )  
in the presence of: )



Witness Nick Blasutto )



**MATTHEW REITER**)

**CARMA FINANCIAL SERVICES  
CORPORATION**



By: John L. Smith  
Secretary

**SCHEDULE "E"**  
**AUDIT COMMITTEE CHARTER**

**Mandate**

The primary function of the Audit Committee (the “Committee”) is to assist the Board of Directors (the “Board”) in fulfilling its financial oversight responsibilities regarding the integrity of the financial statements, other financial information, the Corporation’s systems of internal controls, and the Corporation’s auditing, accounting and financial reporting processes as well as any additional duties set out in this Charter or otherwise delegated to the Committee by the Board consistent with this function, the Audit Committee will encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels. The Audit Committee’s primary duties and responsibilities are to:

- (a) Serve as an independent and objective party to monitor the Corporation’s financial reporting and internal control system and review the Corporation’s financial statements;
- (b) Review and appraise the performance of the Corporation’s external auditors; and
- (c) Provide an open avenue of communication among the Corporation’s auditors, financial and senior management and the Board.

**Composition**

The Audit Committee shall be comprised of three directors as determined by the Board with the majority of members being non-management directors.

At least one member of the Audit Committee shall have accounting or related financial management expertise. All members of the Audit Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Corporation’s Charter, the definition of “financially literate” is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Corporation’s financial statements.

The members of the Audit Committee shall be elected by the Board at its first meeting following the annual shareholders’ meeting. Unless a Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by a majority vote of the full Audit Committee membership.

## **Meetings**

The Audit Committee shall meet at least twice annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Audit Committee will meet with management and the external auditors in separate sessions and in joint sessions annually.

### **Responsibilities and Duties**

To fulfill its responsibilities and duties, the Audit Committee shall:

- (a) Report to the Corporation's Board of Directors annually.
- (b) Review the Corporation's annual and interim financial statements, and MD&A, and related press releases before the Corporation publicly discloses this information, including any certification, report, opinion, or review rendered by the external auditors.
- (c) Overseeing the work and performance of the external auditors. Ensuring the external auditors report directly to the Committee throughout the term of their work.
- (d) Obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Corporation.
- (e) Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
- (f) Take, or recommend that the full Board take, appropriate action to oversee the independence of the external auditors.
- (g) Recommend to the Board the selection and, where applicable, the replacement of the external auditors nominated annually for shareholder approval.
- (h) At each meeting, the members of the Committee who are not management will consult with the external auditors, about the quality of the Corporation's accounting principles, internal controls and the completeness and accuracy of the Corporation's financial statements.
- (i) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- (j) Plan the scope of the annual audit and reviews with management and the external auditors the audit plan for the year-end financial statements and intended template for such statements.
- (k) Read carefully all internal control points raised by the auditors in correspondence with management.
- (l) Reviews compliance with tax and financial reporting rules as issues arise.

(m) Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:

- (i) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent of the total amount of revenues paid by the Corporation to its external auditors during the fiscal year in which the non-audit services are provided; and
- (ii) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
- (iii) Such services are promptly brought to the attention of the Committee by the Corporation and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are also members of the Board to whom authority to grant such approvals has been delegated by the Committee.

***The Committee does the following main activities to fulfill these responsibilities:***

- (a) In consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process, both internal and external.
- (b) Consider the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
- (c) Consider and approve, if appropriate, changes to the Corporation's auditing and accounting principles and practices as suggested by the external auditors and management.
- (d) Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to appropriateness of such judgments.
- (e) Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- (f) Review any significant disagreement among management and the external auditors in connection with the preparation of the financial statements.
- (g) Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
- (h) Review any complaints or concerns about any questionable accounting, internal accounting controls or auditing matters.

- (i) Review certification processes.
- (j) Establish a procedure for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

The audit committee has the authority to hire, at the company's expense, independent counsel or advisers to assist the Committee in discharging its responsibilities.

**SCHEDULE “F”**  
**DISCLOSURE ON CORPORATE GOVERNANCE**

<b>TSX Guidelines</b>	<b>Response</b>
1. <b>The board of directors should explicitly assume responsibility for the stewardship of the Corporation:</b>	<p>The board of directors (the “<b>Board</b>”) of Carma Financial Services Corporation (the “<b>Corporation</b>”) is responsible for overseeing the management of the Corporation by its executive officers.</p> <p>The Board is responsible to ensure that the following are in place and operating effectively:</p> <ul style="list-style-type: none"><li>• a strategic and operational planning process</li><li>• a risk identification, management and compliance process</li><li>• a management development and successor planning including appointing, training and monitoring senior management</li><li>• a corporate communication policy and full disclosure practices</li><li>• annual review of internal controls and systems contracts, management organization and management information systems</li><li>• act as the Corporation’s corporate governance committee</li></ul> <p>It is expected that members of the Board will:</p> <ul style="list-style-type: none"><li>• act in the best interests of the Corporation to maximize shareholder value</li><li>• actively promote business opportunities and business relationships to the benefit of the Corporation</li><li>• carry out their duties proactively as Directors to assist management with corporate governance and management concerns</li><li>• devote sufficient time to stay current on the Corporation’s plans and activities in order to knowledgeably contribute to its development</li><li>• avoid conflicts of interest and personal or business dealings with the Corporation except as approved by the Board</li></ul> <p>The Board is currently comprised of five members, two of</p>

- whom are unrelated to the Corporation's management. The Board meets at least once per financial quarter, with additional meetings held as required. The Board considers its current size to be appropriate in light of the size of and the nature of its business.
- 2. Majority of directors should be "unrelated" (independent of management and free from conflicting interest).**
- The TSX Guidelines define an "unrelated director" as a director who is independent of management and free from any business or other relationship that could, or could be reasonably perceived to, materially interfere with the director's ability to act with a view to the best interest of the Corporation, other than interests and relationships arising from shareholdings. The TSX Guidelines also focus on the importance of having an appropriate portion of members of the Corporation's Board who are free from any interest in or relationships with a "significant shareholder" of the Corporation, i.e., a shareholder with the ability to exercise a majority of the votes for the election of the Corporation's Board.
- Independent directors help ensure that the Corporation is managed in the best interests of all shareholders. The unrelated directors are Mr. Tom Davidson and Mr. Richard Watson.
- 3. Disclose for each director whether he is related and how that conclusion was reached.**
- Messrs. Davidson and Watson are considered unrelated directors since they are all independent of management and free from any business or other relationship that could, or would be reasonably perceived to materially interfere with the director's ability to act with a view to the best interests of the Corporation other than interests and relationships arising from shareholdings.
- 4. Board of Directors should appoint a committee composed exclusively of "outside directors", i.e., non-management directors, a majority of whom are "unrelated directors" for proposing to the full board new nominees to the board and for assessing directors.**
- The TSX guidelines suggest that Boards establish a committee comprised exclusively of "outside directors", i.e., non management directors. However, the Corporation has not done so as of yet.
- 5. Board of Directors should implement a process for assessing the effectiveness of the Board, its committees and individual directors.**
- Please see response to Item 4 above.
- 6. Provide orientation and education programs for new directors.**
- At such time as new directors are appointed/elected, the Corporation will consider, on an individual basis, the need

	<p>to provide such new director with orientation and education programs, and if deemed necessary will provide the new director with such programs. Reports and other material relating to the affairs of the Corporation will be provided to a new director.</p>
7. <b>Consider the size of the Board with a view to improving effectiveness.</b>	The Board considers the Corporation's five member board of directors to be appropriate at the current time for the effective operation of the Corporation.
8. <b>Review compensation of directors in light of risks and responsibilities.</b>	The Corporation complies with the guideline.
9. <b>Committees should generally be composed of outside (non-management directors), a majority of which should be unrelated.</b>	All of the Corporation's committees are composed of a majority of outside directors, all of whom are unrelated.
10. <b>Appoint a committee responsible for approach to corporate governance issues.</b>	Please see response to Question 4 above. The Board, as a whole, has assumed the responsibility for developing the Corporation's approach to corporate governance issues. The Board intends to monitor such approach, from time to time, to determine whether additional measures become necessary. The Board is responsible for the Corporation's response to the TSX guidelines on corporate governance.
11. <b>The Board of Directors, together with the CEO, should develop position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the Board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.</b>	There is no specific mandate for the Board since the Board has plenary power. Any responsibility which is not delegated to senior management or a Board committee remains with the entire Board. The Board has delegated the responsibility for the Corporation's day to day business to Mr. David Aiello who is the Corporation's President, Chief Executive Officer and Chief Operating Officer but he is accountable to the Board for meeting corporate objectives. Mr. Aiello, assisted by Mr. John Smith, has been mandated by the Board to take such actions as he deems necessary to carry out his duties subject to those duties that are the responsibility of the Board and to the authority limits for expenditures, as set by the Board from time to time. The efforts of Mr. Aiello will be assessed by the Board on an annual basis.
12. <b>Establish structures and procedures to enable the Board to function independently of management.</b>	Three of the five person Board are non-management directors. Mr. Aiello, assisted by Mr. John Smith, is responsible for ensuring appropriate organization, content and flow of information to the Board, ensuring that all concerns of the directors are addressed and ensuring that the Board acts independently of management. Meetings of

- the corporate governance committee, effectively enables the Board to meet without the presence of management.
- 13. Establish an audit committee with a specifically defined mandate.**
- The Corporation's audit committee is mandated to monitor the audit of the Corporation and the preparation of financial statements, review all prospectuses, annual and quarterly reports to shareholders, annual information forms, and other similar documents and meet with the "outside" directors independently of management. A majority of the members of the audit committee are unrelated directors.
- 14. Implement a system to enable individual directors to engage outside advisors at the Corporation's expense in appropriate circumstances.**
- Individual directors may engage outside advisors, at the Corporation's expense, subject to the approval of the corporate governance committee.

**SCHEDULE "G"**  
**FINANCIAL STATEMENTS OF THE CORPORATION**

**INTERIM FINANCIAL STATEMENTS OF THE CORPORATION  
FOR THE PERIOD ENDED AUGUST 31, 2004**

**(Unaudited)**

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT AUGUST 31, 2004**  
**(Unaudited)**

	<b>August 31</b>	<b>May 31</b>
	<b>2004</b>	<b>2004</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	914,687	1,689,697
Bank Term deposits	905,349	400,000
Accounts Receivable	842,561	950,993
Prepaid and sundry assets	501,156	494,487
	<b>3,163,753</b>	<b>3,535,177</b>
<b>Cash Investments</b>	<b>247,500</b>	<b>247,500</b>
<b>Capital Assets</b>	<b>712,569</b>	<b>1,071,099</b>
<b>Customer List</b>	<b>287,157</b>	<b>0</b>
	<b>4,410,979</b>	<b>4,853,776</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,061,873	1,066,176
Deferred revenue	1,768,409	1,845,606
Current portion of capital lease obligation	37,352	37,352
Current Portion of Lease Inducements	769	9,228
Income taxes payable	131	131
	<b>2,868,534</b>	<b>2,958,493</b>
<b>Deferred Revenue</b>	<b>75,835</b>	<b>75,835</b>
<b>Lease Inducements</b>	<b>0</b>	<b>51,627</b>
<b>Capital Lease Obligation</b>	<b>87,235</b>	<b>96,811</b>
	<b>3,031,604</b>	<b>3,182,766</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock</b>	<b>6,822,720</b>	<b>6,321,902</b>
<b>Stock Based Compensation</b>	<b>129,699</b>	<b>0</b>
<b>Warrants</b>	<b>0</b>	<b>146,138</b>
<b>Deficit</b>	<b>(5,573,044)</b>	<b>(4,797,030)</b>
	<b>1,379,375</b>	<b>1,671,010</b>
	<b>4,410,979</b>	<b>4,853,776</b>

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED**  
**(Unaudited)**

	<b>August 31 2004</b>	<b>August 31 2003</b>
<b>Revenue</b>		
Direct Costs of Collections and Credit Reporting	1,329,430	1,322,276
Gross Margin	<u>805,839</u>	<u>772,132</u>
	<u>523,591</u>	<u>550,144</u>
 <b>Operating Expenses</b>		
Sales, general and administrative	680,296	611,789
Interest on current debt	42	(920)
Interest on long-term debt	3,479	34,933
Financing and investor relations	0	(2,379)
Amortization of capital assets	59,250	109,642
Lease termination costs	56,990	0
Employee termination costs	38,540	175,434
Loss on disposal of capital assets	<u>308,601</u>	<u>0</u>
	<u>1,147,198</u>	<u>928,499</u>
 <b>Loss - Before undernoted item</b>		
	(623,607)	(378,355)
 <b>Other Costs</b>		
Gain on sale of divisional assets	0	<u>7,052</u>
 <b>Net Loss</b>		
	<u>(623,607)</u>	<u>(371,303)</u>
 <b>Net Loss per Share</b>		
	<u>(\$0.011)</u>	<u>(\$0.018)</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
**FOR THE THREE MONTHS ENDED**  
**(Unaudited)**

	<b>August 31 2004</b>	<b>August 31 2003</b>
<b>Balance - Beginning of Quarter</b>	(4,797,030)	(4,425,373)
<b>Adjustment for Stock Based Compensation</b>	(152,407)	0
<b>Restated Balance - Beginning of Quarter</b>	(4,949,437)	(4,425,373)
<b>Net Loss</b>	(623,607)	(371,303)
<b>Balance - End of Quarter</b>	<b><u>(5,573,044)</u></b>	<b><u>(4,796,676)</u></b>

**CARMA FINANCIAL SERVICES CORPORATION**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE THREE MONTHS ENDED**  
**(Unaudited)**

	<b>August 31</b>	<b>August 31</b>
	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>		
Net Loss	(623,607)	(371,303)
Items not affecting cash:		
Amortization of proprietary software	14,460	17,010
Amortization of other capital assets	44,790	92,632
Net lease inducements	(60,086)	(2,307)
Stock based compensation	13,912	0
Loss on disposal of capital assets	308,601	0
	<u>(301,930)</u>	<u>(263,968)</u>
Net change from non-cash items from operations	20,263	(210,345)
<b>Cash (used in) provided by operating activities</b>	<u>(281,667)</u>	<u>(474,313)</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(6,391)	(7,826)
Bank term deposit	(505,349)	0
Investments	0	(107,500)
Cash consideration paid in acquisition of subsidiary	(290,087)	0
<b>Cash (used in) provided by investing activities</b>	<u>(801,827)</u>	<u>(115,326)</u>
<b>Cash flows from financing activities</b>		
(Decrease) increase in bank indebtedness	0	(16,869)
Net repayment of long-term debt	0	(2,825)
Issuance of capital stock and warrants, net of share issue costs	318,060	(3,300)
Obligations under capital leases	(9,576)	(20,774)
<b>Cash provided by (used in) financing activities</b>	<u>308,484</u>	<u>(43,768)</u>
<b>Increase (Decrease) in cash</b>	<u>(775,010)</u>	<u>(633,407)</u>
<b>Cash - Beginning of period</b>	<u>1,689,697</u>	<u>1,681,596</u>
<b>Cash - End of period</b>	<u>914,687</u>	<u>1,048,189</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FIRST QUARTER ENDED AUGUST 31, 2004**

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and follow the same accounting policies and methods of application as the annual audited financial statements as at May 31, 2004. As described in the MD&A for August 31, 2004, the Company has retroactively adopted the fair value method to account for its stock based compensation for employees. An adjustment to the opening deficit balance to reflect the cumulative effect of the change related to prior periods has been made. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in CARMA's Annual Report for the fiscal year ended May 31, 2004.

**2. Segmented Information**

The Company considers that its operations fall principally into two business segments, namely (1) Credit Reporting and Evaluation, (2) Third Party Debt Recovery and Receivable Management. Management regularly reviews the operations of these segments to assess performance and to allocate resources. Operations are in one geographical area, that being Canada.

The Company's operating segments are as follows:

**3 months ending August 31, 2004:**

	Credit Reporting & Evaluation	Third Party Debt Recovery	Total
Revenue	\$819,160	\$510,270	\$1,329,430
Direct Costs	<u>399,640</u>	<u>406,199</u>	<u>805,839</u>
Margin	<u>\$419,520</u>	<u>\$104,071</u>	<u>523,591</u>
Sales, general and administrative			680,296
Interest on current debt			42
Interest on long-term debt			3,479
Amortization of capital assets			59,250
Lease termination costs			56,990
Employee termination costs			38,540
Loss on disposal of capital assets			<u>308,601</u>
			1,147,198
Net Loss			<u><u>\$ (623,607)</u></u>
Capital Assets (net of amortization)	<u>\$474,587</u>	<u>\$237,982</u>	<u>\$ 712,569</u>

**3 months ending August 31, 2003:**

	Credit Reporting & Evaluation	Third Party Debt Recovery	Total
Revenue	\$756,744	\$565,532	\$1,322,276
Direct Costs	<u>406,223</u>	<u>365,909</u>	<u>772,132</u>
Margin	<u>\$350,521</u>	<u>\$199,623</u>	<u>550,144</u>
Sales, general and administrative			611,789
Interest on current debt (recovery)			(920)
Interest on long-term debt			34,933
Financing and investor relations (recovery)			(2,379)
Amortization of capital assets			109,642
Employee termination costs			175,434
Gain on sale of divisional assets			<u>(7,052)</u>
			<u>921,447</u>
Net Loss			<u><u>\$ (371,303)</u></u>
Capital Assets (net of amortization)	<u>\$779,618</u>	<u>\$308,120</u>	<u>\$1,087,738</u>

**3. Deferred Revenue**

Deferred Revenue results from the sale of contracts with a term of 12 months or longer, with payment being within arranged terms. These contracts are defined for a specific usage over a specified time period – i.e. the contract expires either when the term ends or the customer has exhausted its allotment of services, whichever comes first. Generally accepted accounting principles require that the unearned portion of the contract be accrued as a deferred revenue liability. The Company's current accounting policy is to amortize this revenue over the life of the contract. The nature of these contracts is such that any under utilization by the client is not refundable beyond a 15% carryover discount for contract renewal. Note that the current portion of Deferred Revenue is a reflection of guaranteed revenue for the Company that will be recognized within the year.

Deferred Revenue at August 31, 2004 was \$1,844,244, which compares with the balance at August 31, 2003 of \$1,911,665. The following represent the total current and long term deferred revenues:

	<u>Aug 2004</u>	<u>Aug 2003</u>
Deferred Revenue - start of quarter	\$1,921,441	\$1,849,113
Plus Additions during the quarter	778,872	905,217
Less Recognized to revenue during the quarter	<u>856,069</u>	<u>842,665</u>
Deferred Revenue – end of quarter	<u><u>\$1,844,244</u></u>	<u><u>\$1,911,665</u></u>

#### **4. Capital Stock**

Authorized and issued

Authorized

Unlimited	common shares
Unlimited	Series 1 Preference Shares, cumulative at \$0.01 per share, redeemable at \$0.50 per share each, non-voting, convertible into common shares on a share-for share basis.

Issued

	<u>Number</u>	<u>Amount</u>
Balance at May 31, 2004	54,749,852	6,321,902
Stock based compensation	0	36,620
Employee stock option plan	80,600	8,060
Exercise of warrants from the May 30, 2003 private placement	3,100,000	310,000
Transfer of warrant value	<u>0</u>	<u>146,138</u>
Balance at August 31, 2004	<u>57,930,452</u>	<u>6,822,720</u>

#### **5. Significant Events**

On June 16 the Company appointed David Aiello as Chief Executive Officer, President and Chief Operating Officer. John L. Smith remains as Senior Vice President and President of Carma's operating divisions. In addition, Nick Blasutto was appointed as Chief Financial Officer to replace David Aiello who previously held this position.

On June 16 the Company acquired 100% of the outstanding common shares of Legal Credit Recovery Corp, a small consumer collection agency. In this acquisition, the company acquired \$2,930 of capital assets and a customer list valued at \$287,157 which will be amortized over a three year period.

The Company has announced that it is moving into new offices in Mississauga at the beginning of October. This move resulted in the company incurring a cash payment of \$195,687 to terminate the existing lease and additional non-cash adjustments to the Balance Sheet to record the loss resulting from the disposition of the existing leasehold improvements, partially offset by removing liabilities for lease inducement costs and other liabilities, which in aggregate equal \$169,904. These costs are reflected in the Financial Statements at August 31, 2004. Included in accounts payable at August 31, 2004 is \$249,618 relating to lease termination costs.

#### **6. Subsequent Events**

On October 25 the Company announced that it has entered into an agreement to acquire the shares of Synergex Group Inc. at a purchase price of \$14,399,999 plus the amount of Synergex' closing date working capital. The purchase price to be satisfied by Carma's issuance of 53,333,333 common shares and such number of preferred shares as will have an aggregate value equal to Synergex' working capital as at closing. This transaction has been accounted for as a continuity of interests in accordance with EIC 89 "Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned

Subsidiaries". Synergex is owned by David Aiello, who is a Senior Officer, Director and a significant shareholder of Carma. Completion of this transaction is subject to a number of conditions, including but not limited to, acceptance by the TSX Venture Exchange and disinterested shareholder approval at a meeting to be called to consider this transaction.

## **7. Comparative Figures**

Certain comparative figures have been reclassified in accordance with the current year's presentation.

**CONSOLIDATED FINANCIAL STATEMENTS OF THE CORPORATION  
MAY 31, 2004 AND 2003**

**CARMA FINANCIAL SERVICES CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2004 AND 2003**

**CARMA FINANCIAL SERVICES CORPORATION**

**MAY 31, 2004 AND 2003**

**CONTENTS**

	<b>Page</b>
<b>Auditors' Report</b>	1
<b>Consolidated Financial Statements:</b>	
<b>Consolidated Balance Sheets</b>	2
<b>Consolidated Statements of Operations</b>	3
<b>Consolidated Statements of Deficit</b>	3
<b>Consolidated Statements of Cash Flows</b>	4
<b>Notes to Consolidated Financial Statements</b>	5

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## Auditors' Report

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**To the Directors of  
Carma Financial Services Corporation**

We have audited the consolidated balance sheets of Carma Financial Services Corporation as at May 31, 2004 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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.

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

The comparative information was reported on by another auditor with a report date of August 22, 2003.

BDO Dennerby LLP

Chartered Accountants

Markham, Ontario  
August 23, 2004  
except for Note 19 which is as of December 24, 2004

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**AS AT MAY 31**

**2004**

**2003**

**ASSETS**

<b>CURRENT</b>		
Cash	\$ 1,689,697	\$ 1,803,416
Bank term deposit (Note 4)	400,000	-
Accounts receivable	950,993	683,277
Prepaid and sundry (Note 3)	<u>494,487</u>	<u>454,167</u>
	3,535,177	2,940,860
<b>INVESTMENTS (Note 4)</b>	247,500	140,000
<b>CAPITAL ASSETS (Note 5)</b>	<u>1,071,099</u>	<u>1,189,554</u>
	<u>\$ 4,853,776</u>	<u>\$ 4,270,414</u>

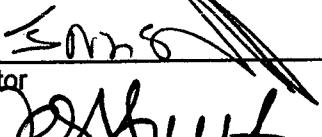
**LIABILITIES**

<b>CURRENT</b>		
Bank indebtedness (Note 6)	\$ -	\$ 355,670
Accounts payable and accrued liabilities	1,066,176	1,348,015
Deferred revenue	1,845,606	1,771,384
Current portion of long-term debt (Note 7)	-	3,449
Current portion of obligation under capital leases (Note 8)	37,352	66,497
Current portion of lease inducements	9,228	9,228
Income taxes payable	<u>131</u>	<u>3,016</u>
	2,958,493	3,557,259
<b>DEFERRED REVENUE</b>	75,835	77,729
<b>LEASE INDUCEMENTS</b>	51,627	60,855
<b>OBLIGATION UNDER CAPITAL LEASES (Note 8)</b>	96,811	134,163
<b>DEBENTURES (Note 9)</b>	<u>-</u>	<u>580,000</u>
	<u>3,182,766</u>	<u>4,410,006</u>

**SHAREHOLDERS' EQUITY (DEFICIENCY)**

<b>CAPITAL STOCK (Note 10)</b>	6,321,902	3,278,575
<b>WARRANTS (Note 10)</b>	146,138	1,007,206
<b>DEFICIT</b>	<u>(4,797,030)</u>	<u>(4,425,373)</u>
	<u>1,671,010</u>	<u>(139,592)</u>
	<u>\$ 4,853,776</u>	<u>\$ 4,270,414</u>

APPROVED ON BEHALF OF THE BOARD:

  
 Director  
  
 Director

See Accompanying Notes

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

<b>FOR THE YEARS ENDED MAY 31</b>	<b>2004</b>	<b>2003</b>
REVENUE	\$ 5,788,013	\$ 6,217,295
DIRECT COSTS OF COLLECTIONS AND CREDIT REPORTING	<u>3,214,679</u>	<u>3,396,398</u>
MARGIN	<u>2,573,334</u>	<u>2,820,897</u>
OPERATING EXPENSES		
Sales, general and administrative	2,259,566	2,877,953
Interest on current debt	1,443	93,985
Interest on long-term debt	167,123	210,498
Financing and investor relations	(2,379)	523,000
Amortization of capital assets	300,722	527,297
Termination costs	225,675	-
Gain on sale of capital assets	<u>(107)</u>	<u>(208,152)</u>
	<u>2,952,043</u>	<u>4,024,581</u>
LOSS - Before undernoted item	(378,709)	(1,203,684)
OTHER COSTS		
(Gain)/Loss on sale of divisional assets (Note 11)	<u>(7,052)</u>	<u>96,615</u>
NET LOSS (Note 12)	<u>\$ ( 371,657)</u>	<u>\$ (1,300,299)</u>
NET LOSS PER SHARE (Note 13)	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED STATEMENTS OF DEFICIT**

<b>FOR THE YEARS ENDED MAY 31</b>	<b>2004</b>	<b>2003</b>
BALANCE - Beginning of year	\$ (4,425,373)	\$ (3,125,074)
Net loss	<u>(371,657)</u>	<u>(1,300,299)</u>
BALANCE - End of year	<u>\$ (4,797,030)</u>	<u>\$ (4,425,373)</u>

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See Accompanying Notes

**CARMA FINANCIAL SERVICES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED MAY 31	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (371,657)	\$ (1,300,299)
Items not affecting cash		
Amortization of proprietary software	89,675	82,438
Amortization of other capital assets	211,047	444,859
Deferred gain on sale of capital assets, net of loss on lease cancellation	-	(208,152)
Gain on sale of assets	(107)	-
Net lease inducements	<u>(9,228)</u>	<u>(9,602)</u>
Cash flow used in operations	(80,270)	(990,756)
Net change from non-cash items from operations (Note 14)	<u>(520,432)</u>	<u>661,646</u>
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>(600,702)</u></b>	<b><u>(329,110)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(183,801)	(110,822)
Investment in proprietary software	-	(88,050)
Proceeds on disposal of capital assets	1,641	-
Investments	(107,500)	20,000
Purchase of bank term deposit	<u>(400,000)</u>	<u>-</u>
<b>CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b><u>(689,660)</u></b>	<b><u>(178,872)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	(355,670)	227,989
Net repayment of long-term debt	(3,449)	(131,300)
Issuance of capital stock and warrants, net of share issue costs	2,182,259	2,074,779
Obligations under capital leases	(66,497)	(435,903)
Issuance of debentures	-	580,000
Repayment of debentures	(580,000)	(150,000)
Note payable	<u>-</u>	<u>(50,000)</u>
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b><u>1,176,643</u></b>	<b><u>2,115,565</u></b>
<b>NET CHANGE IN CASH</b>	<b><u>(113,719)</u></b>	<b><u>1,607,583</u></b>
<b>CASH - Beginning of year</b>	<b><u>1,803,416</u></b>	<b><u>195,833</u></b>
<b>CASH - End of year</b>	<b><u>\$ 1,689,697</u></b>	<b><u>\$ 1,803,416</u></b>

See Accompanying Notes

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Canada Bonded Attorney and Legal Directory Ltd. (CBA), Lumbermen's Credit Bureau Limited, Careers in Finance Ltd. and American Bonded Attorney Inc.

**2. SIGNIFICANT ACCOUNTING POLICIES**

a) Proprietary software

The company has developed and maintained software systems to manage the credit reporting (CEPS - Commercial Entity Profiling System) and collections (CARRS - Customized Accounts Receivable Recovery System) business, as well as maintaining client information and history. Costs relating to this software are capitalized if the work being done enhances the existing software and provides additional value to the system. Such costs are amortized over the expected anticipated useful life of the related software. Such amortization commences in the year the products become operational. Expenditures for which there are no apparent future benefits are expensed in the year incurred.

b) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the straight-line basis as follows:

Proprietary software	10 years
Computer equipment	3 years
Furniture and fixtures	10 years
Equipment under capital leases	varying rates from 3 to 6 years
Office equipment	varying rates from 7 to 10 years
Computer software	3 years
Leasehold improvements	remaining life of the lease
Computer database under sale-leaseback	2 years

c) Revenue recognition

The company's revenue from the sale of credit reporting contracts and collection letter subscriptions is generated through the sale of contracts for a specific quantity over a specified time period. The company recognizes revenue from these sales over the calendar life of the contract/subscription on a straight-line basis. The unearned portion of the contracts is reported as deferred revenue.

Revenue earned on a contingency basis as a result of collection activities is recorded only when collection of the specific outstanding accounts has been completed.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

d) **Income taxes**

The company follows the liability approach to accounting and reporting for income taxes.

Income taxes are provided at current rates for all items included in the Statement of Operations regardless of the period in which such items are reported for income tax purposes. The principal item which results in temporary differences between financial and tax reporting purposes is amortization of capital assets. Future income taxes are adjusted for current changes in income tax rates.

Future income tax assets are recorded to the extent that management believes it is more likely than not that benefits arising in respect of deductible temporary differences and carry forward of unused losses will be able to be used in the carry forward periods.

e) **Translation of foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and liabilities are converted at rates of exchange in effect at the date of transaction. Revenue and expense items are translated at average rates prevailing during the year. Realized and unrealized foreign exchange gains and losses are included in operations.

f) **Capital leases**

Leases which transfer substantially all of the benefits and risks of ownership of the property to the company are treated as an acquisition of an asset and the incurrence of an obligation.

g) **Cost of raising capital**

Incremental costs incurred in respect of raising capital are charged against equity proceeds raised. Costs incurred prior to completion of raising capital are included in deferred financing charges.

h) **Lease inducements**

Lease inducements are deferred in the year they are received and are amortized on a straight-line basis over the term of the respective leases.

i) **Non-monetary transactions**

Transactions in which shares or other non-cash consideration are exchanged for assets or services are valued at the fair value of the assets or services involved in accordance with Section 3830 ("Non-monetary transactions") of the CICA Handbook.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**2. SIGNIFICANT ACCOUNTING POLICIES – continued**

i) Stock-based compensation

The company recognizes no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and stock and stock option awards granted to non-employees will be accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock will be determined by the quoted market price of the company's stock.

k) Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles has required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at May 31, 2004 and 2003 and the revenue and expenses reported for the years then ended. Accordingly, the company's measurements are based upon management's best estimates based on existing knowledge which reflect the company's planned course of action and probable economic conditions. However, it is possible that actual events may be different from those anticipated. Accordingly, such differences could impact the carrying values of assets as well as future results of operations and cash flows.

**3. PREPAID AND SUNDAY**

Prepaid and sundry consists of:

	<u>2004</u>	<u>2003</u>
Prepaid sales commissions	\$ 288,468	\$ 270,960
Prepaid expenses	<u>206,019</u>	<u>183,207</u>
	<u><u>\$ 494,487</u></u>	<u><u>\$ 454,167</u></u>

**4. BANK TERM DEPOSITS AND INVESTMENTS**

The Bank term deposit is a cashable GIC held by the Royal Bank of Canada, with a maturity date of October 4, 2004. The average rate for the year was 1.96%.

Investments of \$247,500 (2003 - \$140,000) are cash pledged and deposited to secure performance under fidelity and surety bonds provided. The deposited cash bears no interest, is restricted and is repayable to the company upon cancellation of the bonds.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**5. CAPITAL ASSETS**

<u>2004</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Proprietary software	\$ 1,049,533	\$ 724,415	\$ 325,118
Computer equipment	528,524	471,587	56,937
Furniture and fixtures	231,987	170,944	61,043
Equipment under capital leases	502,884	383,520	119,364
Office equipment	70,306	61,129	9,177
Computer software	380,363	196,044	184,319
Leasehold improvements	373,593	58,452	315,141
Computer database under sale-leaseback	<u>754,350</u>	<u>754,350</u>	<u>-</u>
	<u><u>\$ 3,891,540</u></u>	<u><u>\$ 2,820,441</u></u>	<u><u>\$ 1,071,099</u></u>
<u>2003</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Proprietary software	\$ 1,049,533	\$ 634,740	\$ 414,793
Computer equipment	490,621	426,590	64,031
Furniture and fixtures	231,987	158,708	73,279
Equipment under capital leases	502,884	308,641	194,243
Office equipment	67,389	58,145	9,244
Computer software	236,941	137,692	99,249
Leasehold improvements	373,593	38,878	334,715
Computer database under sale-leaseback	<u>754,350</u>	<u>754,350</u>	<u>-</u>
	<u><u>\$ 3,707,298</u></u>	<u><u>\$ 2,517,744</u></u>	<u><u>\$ 1,189,554</u></u>

The carrying value of proprietary software is comprised of:

	<u>2004</u>	<u>2003</u>
Accumulated capitalized expenditures on proprietary software, net	\$ 414,793	\$ 409,181
Costs capitalized during the year	<u>-</u>	<u>88,050</u>
	<u>414,793</u>	<u>497,231</u>
Less: Amortization	<u>89,675</u>	<u>82,438</u>
	<u><u>\$ 325,118</u></u>	<u><u>\$ 414,793</u></u>

Included in capital assets are \$139,590 (2003 - \$Nil) of computer software which was not being amortized as the software was not yet in use at year end.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**6. BANK INDEBTEDNESS**

In both 2004 and 2003 the company had access to a Bank line of \$400,000. The bank indebtedness for 2003 included a demand loan of \$240,000 which bore interest at 4% above the bank's prime lending rate and was secured by a general security agreement. Bank indebtedness included the following:

	<u>2004</u>	<u>2003</u>
Demand loan	\$ -	\$ (240,000)
Bank overdraft	<u>\$ -</u>	<u>\$ (115,670)</u>
	<u>\$ -</u>	<u>\$ (355,670)</u>

**7. LONG-TERM DEBT**

	<u>2004</u>	<u>2003</u>
Term loan, monthly payments of \$942 principal plus interest at prime plus 1.25%, due March 2004	\$ -	\$ 3,449
Less: Current portion of long term debt	<u>\$ -</u>	<u>3,449</u>
	<u>\$ -</u>	<u>\$ -</u>

The loan was secured by a general security agreement and a chattel mortgage covering equipment and computer software.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**8. LEASE COMMITMENTS**

**(a) Capital leases**

The Company has commitments under capital lease agreements for equipment, whereby it is required to make equal monthly blended payments of principal and interest of \$4,812.

Minimum capital lease payments, including principal and interest, for the next five years are:

2005	\$ 50,150
2006	46,188
2007	41,968
2008	23,135
2009	<u>675</u>
	162,116
<b>Less: Amount representing interest</b>	<b><u>27,953</u></b>
<b>Net obligation</b>	<b>134,163</b>
<b>Current portion of capital lease obligation</b>	<b><u>37,352</u></b>
<b>Long-term portion of capital lease</b>	<b><u>\$ 96,811</u></b>

**(b) Rental and operating leases**

Minimum annual lease payments under annual rental and operating leases, are as follows:

2005	\$ 478,000
2006	192,200
2007	188,000
2008	169,200
2009 and thereafter	<u>192,100</u>
	<u>\$ 1,219,500</u>

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2004 AND 2003**

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**9. DEBENTURES**

The debentures bore interest at 20% per annum during the first year and 30% per annum during the second year, matured on the earlier of February 13, 2005 and the date of closing of the sale of the company or the sale of substantial part of the assets of the company, and was secured by all the assets of the company and its wholly owned subsidiaries ranking second to the senior lender. This debenture was retired in May 2004. A penalty for the early retirement of \$29,000 (5% of the debenture) was paid and charged to operations in 2004.

**10. CAPITAL STOCK**

a) Authorized and issued

Authorized

Unlimited common shares

Unlimited Series I Preference Shares, cumulative at  
\$0.01 per share, redeemable at \$0.50 per  
share each, non-voting, convertible into  
common shares on a share-for-share basis

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**10. CAPITAL STOCK - continued**

**Issued**

<u>Common shares</u>	<u>Number</u>	<u>Amount</u>
Balance as at June 1, 2001	14,098,453	\$ 2,010,362
Employee stock option plan (1)	1,600	640
Private placement (2)	<u>800,000</u>	<u>200,000</u>
Balance as at May 31, 2002	14,900,053	2,211,002
Employee stock option plan (1)	543,000	81,450
July 3, 2002 private placement (3)	1,470,000	335,000
April 10, 2003 private placement (4)	1,666,666	100,000
May 15, 2003 private placement (5)	2,000,000	200,000
May 30, 2003 private placement (6)	<u>15,750,000</u>	<u>1,575,000</u>
	36,329,719	4,502,452
less: share issue costs	<u>-</u>	<u>(1,223,877)</u>
Balance as at May 31, 2003	36,329,719	\$ 3,278,575
Employee stock option plan (1)	526,800	102,218
Exercise of warrants under the private placements listed above	19,363,333	2,941,109
Redemption of shares issued under July 3, 2002 placement (3)	<u>(1,470,000)</u>	<u>-</u>
Balance as at May 31, 2004	<u>54,749,852</u>	<u>\$ 6,321,902</u>

1. Options granted under the Employee Stock Option Plan are exercisable over a period up to five years from date of grant. The option price and the exercise price shall be the market price of the company's shares on the date the option is granted. The total number of shares which are reserved and set aside under the Plan are 3,800,000. No one person may receive or hold options entitling the purchase of greater than 5% of the number of issued and outstanding shares of the company.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**10. CAPITAL STOCK - continued**

2. On February 7, 2002, the company completed a private placement of 800,000 units at \$0.25 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.30 per share until January 29, 2004.
3. On July 3, 2002, the company completed a private placement of 1,470,000 units at \$0.50 per unit. Each unit consists of one common share and one exchange right entitling the holder to acquire one Series I Preference Share in exchange for one common share for up to 2 years from the date of closing.

The shares issued above were subject to a minimum hold period of one year.

Under the terms of Unit Purchase Agreement, notwithstanding the provisions of the Series I Preference Shares, Carma has the right to redeem the Series I Preference Shares and to satisfy the redemption price for \$400,000. As at May 31, 2003, the Company held a note receivable of \$400,000 from 1491209 Ontario Inc, a party related to the subscriber of the common shares above, which was repayable on demand, bore interest at 6% per annum and was secured by a general security agreement on the accounts receivable of 1491209 Ontario Inc. During the year, the 1,470,000 common shares were exchanged for 1,470,000 Series I Preference Shares and the company reassigned its right to receive the payment of the note receivable on redemption of the Series I Preference Shares. Therefore the note receivable has been deducted from the proceeds of the above private placement.

4. On April 10, 2003, the company completed a private placement of 1,666,666 units for gross proceeds of \$100,000. Each unit consists of one common share and one half common share purchase warrant. Each warrant is exercisable into one common share at \$0.10 per share until April 9, 2004.

The securities issued above were subject to a one year hold period ending on March 19, 2004.

5. On May 15, 2003, the company completed a private placement of 2,000,000 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 per share until March 27, 2004.

The common shares were not able to be traded until March 27, 2004.

6. On May 30, 2003, the company completed a private placement of 15,750,000 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 per share until June 1, 2004.

The securities issued above were subject to a statutory hold period until October 1, 2003.

As consideration for the services of the agent involved in the issue of the above private placement, 3,100,000 warrants, exercisable into common shares at \$0.10 per share for a period of two years, were issued. These warrants were exercised subsequent to the year end.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**10. CAPITAL STOCK - continued**

7. In accordance with the policies of the Ontario Securities Commission ("OSC") concerning the disposition of common shares by certain persons, certificates representing 5,190,000 common shares had been placed in escrow and while in escrow could not be sold, pledged or otherwise disposed of without the express consent of the OSC. The escrowed shares were released automatically to the escrow shareholders on a prorata basis over 57 months after the date of final receipt for filing the original prospectus of March 10, 1999 "Prospectus Date". The final release from escrow was in November, 2003.

b) Stock options

The company has granted various stock options to employees, officers, directors and consultants to purchase one common share per option which expire 6 months after an employee dies or 30 days after they cease to be employed by the company on various dates as follows:

	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Balance, May 31, 2002	1,405,000	0.48	1,405,000	0.48
Granted	832,000	0.10	144,000	0.10
Cancellations	(390,000)	0.42	(390,000)	0.42
Exercised	<u>(543,000)</u>	0.15	<u>(543,000)</u>	0.15
Balance, May 31, 2003	1,304,000	\$ 0.20	616,000	\$ 0.20
Granted	627,100	0.61	606,420	0.36
Cancellations	(420,000)	0.40	(420,000)	0.40
Exercised	<u>(526,800)</u>	0.19	<u>(526,800)</u>	0.19
Balance, May 31, 2004	<u>984,300</u>	\$ 0.39	<u>275,620</u>	\$ 0.27

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**10. CAPITAL STOCK - continued**

The Company has outstanding and exercisable stock options as follows:

<u>Price</u>	<u>Number</u>	<u>Expiry Date</u>	<u>Outstanding</u>		<u>Exercisable</u>		<u>Exercisable Weighted Average Exercise Price</u>
			<u>Weighted Average Remaining Life</u>	<u>Exercise Price</u>	<u>Number</u>		
\$0.58	415,000	September, 2008	4.3 years	0.58	65,000	0.58	
\$0.73	127,100	January, 2008	3.6 years	0.73	24,420	0.73	
\$0.10	37,600	March, 2005	0.8 years	0.10	9,600	0.10	
\$0.10	9,600	February, 2005	0.7 years	0.10	9,600	0.10	
\$0.10	<u>395,000</u>	December, 2004	0.6 years	0.10	<u>167,000</u>	0.10	
			<u>984,300</u>			<u>275,620</u>	

c) Share purchase warrants

The following is a summary of share purchase warrants activity:

	<u>Number</u>	<u>Exercise price per share</u>	<u>Expiry Date</u>
Balance, as of June 1, 2001	576,923	\$0.65	January 31, 2003
Issued	800,000	\$0.30	January 29, 2004
Expired	<u>(75,000)</u>	\$3.00	
Balance, May 31, 2002	1,301,923		
Issued	21,683,333	\$0.10	March 2004 to May 30, 2005
Expired	<u>(501,923)</u>	\$0.30	
Balance, May 31, 2003	22,483,333		
Exercised	<u>(780,000)</u>	\$0.30	
Exercised	<u>(18,583,333)</u>	\$0.10	
Expired	<u>(20,000)</u>	\$0.30	
Balance, May 31, 2004	<u>3,100,000</u>	\$0.10	

All warrants are exercisable at the time of issue.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**10. CAPITAL STOCK - continued**

d) Fair value

In accordance with Section 3870, the company discloses pro forma information regarding net income (loss) as if the company had accounted for its employees and directors stock options granted after June 1, 2002 under the fair value method. The fair value of stock options issued by the company during the year has been determined using the Black-Scholes option pricing model with the following assumptions: weighted-average risk-free interest rate of 4%; dividend yield of 0%; weighted-average volatility factor of the expected market price of the Company's common shares of 236.3% (based upon the stock price activity over the past 3 years); and a weighted-average expected life of the options of 2 years.

The weighted average fair value of stock options granted during the year ended May 31, 2004 was \$0.61 per share. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma net income under Canadian GAAP, including the pro forma effect of awards granted prior to June 1, 2002, would be reduced by \$130,850 (2003 - \$21,557) for the year ended May 31, 2004. Basic earnings-per-share figures would be unchanged.

The weighted average fair value of warrants granted during 2003 and not exercised at May 31, 2004 has been estimated using the fair value based method whereby the gross proceeds of the private placement is assigned between the common shares and the warrants based on their respective fair values at May 31, 2003. Since they were issued in connection with private placements described in Note 10(a) above, the payments received when the warrants were exercised, have been recorded as an adjustment to share issue costs.

**11. DISPOSAL OF DIVISIONAL ASSETS**

In May 2002, the company sold the assets pertaining to its wholly owned retail consumer collection division and its Montreal office for proceeds of \$850,000 before expenses of \$165,786 resulting in a loss on sale of assets of \$239,782.

In connection with the above sale, the buyer had taken over accounts receivable valued at \$201,131. If the amount collected by the buyer, within 120 days of the closing date, was less than \$201,131, the company would pay the buyer any deficiency and the buyer would assign the uncollected accounts receivable to the company, free and clear of all encumbrance. If the buyer collected an amount greater than \$201,131, the buyer would pay the excess to the company. During the year ended May 31, 2003, the company paid to the buyer an additional \$10,364 for uncollected accounts receivable. During the year ended May 31, 2004 the buyer paid to the company an additional \$7,052 for uncollected accounts receivable.

In connection with the above sale, the buyer had agreed to pay an additional consideration of up to a maximum of \$135,000 in cash contingent on the achievement of targeted commission income and other revenue during the first fiscal year of the buyer. The targeted commission income and other revenue has not been achieved for the buyer's fiscal year ended June 30, 2003. Therefore no additional consideration is payable.

As a result of the above sale of divisional assets, in the year ended May 31, 2003 the company incurred additional costs of \$86,251 during the year for the cancellation of various leases.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**12. INCOME TAXES**

The provision for income taxes differs from the expense that would be obtained by applying statutory rates as a result of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Combined statutory basic Canadian federal and provincial tax rates	\$ (134,242)	(36.12)	\$ (475,909)	(36.60)
Losses for which no income tax benefits have been recorded	<u>134,242</u>	<u>36.12</u>	<u>475,909</u>	<u>36.60</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

There is no income tax provision (recovery) from continuing operations. The nature and tax effects of the temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	<u>2004</u>	<u>2003</u>
Future income tax assets are comprised of:		
- Losses carried forward	\$ 564,000	\$ 801,000
- Capital assets	586,000	450,000
- Lease inducements	22,000	25,000
Other	<u>-</u>	<u>5,000</u>
	<u>1,172,000</u>	<u>1,281,000</u>
Valuation allowance	<u>(1,172,000)</u>	<u>(1,281,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**12. INCOME TAXES – continued**

The company has non-capital tax losses of \$1,561,600, the benefits of which have not been recorded. The losses may be used to reduce future years' taxable income and expire approximately as follows:

2005	\$ 60,000
2206	10,000
2007	81,000
2008	227,500
2009	224,000
2010	613,600
2011	<u>345,000</u>
	<u>\$ 1,561,600</u>

**13. LOSS PER SHARE**

a) **Basic Loss Per Share**

Loss per share is calculated on the basis of the weighted average number of common shares outstanding for the year which amount to 36,450,579 shares (2003 - 15,323,529 shares).

b) **Fully-Diluted Loss Per Share**

The fully-diluted loss per share has not been calculated as the effect on the loss per share would be anti-dilutive.

**14. SUPPLEMENTAL CASH FLOW DISCLOSURES**

The net change in non-cash assets and liabilities arising from operations is comprised of:

	<u>2004</u>	<u>2003</u>
Decrease (increase) in accounts receivable	\$ (267,716)	\$ 745,954
Decrease (increase) in prepaid and sundry	(40,320)	71,640
(Decrease) increase in accounts payable and accrued liabilities	(281,839)	(72,931)
(Decrease) increase in income tax payable	(2,885)	-
(Decrease) increase in deferred revenue	<u>72,328</u>	<u>(83,017)</u>
	<u>\$ (520,432)</u>	<u>\$ 661,646</u>
Interest paid	<u>\$ 139,566</u>	<u>\$ 317,391</u>
Income taxes paid	<u>\$ 2,886</u>	<u>\$ -</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**14. SUPPLEMENTAL CASH FLOW DISCLOSURES - continued**

**Non-cash transactions**

Non-cash transactions for the year are as follows:

- a) Revenue for the year includes an amount of \$37,525 (2003 - \$59,147) which was settled by barter transaction.
- b) During 2003, the company granted 100,000 stock options, exercisable into common shares at \$0.10 each as part consideration, together with the repayment of all remaining obligations, for the buy-out of a capital lease obligation and the related computer database under sale-leaseback. There was no such transaction in 2004.

**15. SEGMENTED INFORMATION**

The company considers that its operations fall principally into two business segments, namely, credit reporting and evaluation, and third party debt recovery, whose operating results are regularly reviewed by management to assess their performance and allocate resources accordingly. Operations are in one geographical area, that being Canada.

The company's operating segments are as follows:

	<u>Credit Reporting and Evaluation</u>	<u>Third party debt recovery</u>	<u>Total</u>
Revenue	\$ 3,203,736	\$ 2,584,277	\$ 5,788,013
Direct costs	<u>1,600,018</u>	<u>1,614,661</u>	<u>3,214,679</u>
Margin	<u>\$ 1,603,718</u>	<u>\$ 969,616</u>	<u>2,573,334</u>
Sales, general, and administration expenses			2,259,566
Interest expense on current debt			1,443
Interest expense on long term debt			167,123
Financing and investor relations			(2,379)
Amortization			300,722
Termination Costs			225,675
Gain on sale of capital assets			(107)
Gain on sale of divisional assets			(7,052)
Net loss			<u>\$ (371,657)</u>
Capital Assets (net of amortization)	<u>\$ 660,453</u>	<u>\$ 410,646</u>	<u>\$ 1,071,099</u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**15. SEGMENTED INFORMATION - continued**

In 2003, the company's operating segments were as follows:

	<u>Credit Reporting and Evaluation</u>	<u>Third party debt recovery</u>	<u>Total</u>
Revenue	\$ 3,027,746	\$ 3,189,549	\$ 6,217,295
Direct costs	<u>1,720,546</u>	<u>1,675,852</u>	<u>3,396,398</u>
Margin	<u>\$ 1,307,200</u>	<u>\$ 1,513,697</u>	<u>2,820,897</u>
 Sales, general, and administration expenses			2,877,954
Interest expense on current debt			93,985
Interest expense on long term debt			210,498
Financing and investor relations			523,000
Amortization			527,297
Gain on sale of capital assets			(208,153)
Loss on sale of divisional assets			<u>96,615</u>
 Net loss			<u>\$ (1,300,299)</u>
 Capital Assets (net of amortization)	<u>\$ 861,705</u>	<u>\$ 327,849</u>	<u>\$ 1,189,554</u>

**16. TRUST ACCOUNTS**

The company keeps collections on behalf of its clients in separate trust bank accounts.

The balances held in trust in respect of collection activities consists of:

	<u>2004</u>	<u>2003</u>
Cash on deposit	\$ 445,565	\$ 426,844
Less: amounts due to clients	<u>(285,199)</u>	<u>(305,024)</u>
Funds to be transferred to general accounts	<u>\$ 160,366</u>	<u>\$ 121,820</u>

**17. FINANCIAL INSTRUMENTS**

**(a) Fair value**

The company's financial assets and liabilities are valued at management's best estimates of fair value as follows:

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**17. FINANCIAL INSTRUMENTS - continued**

i) *Cash and accounts receivable*

The carrying amount is equal to fair value due to the instant liquidity of the assets.

ii) *Accounts payable and accrued liabilities*

The carrying amount is equal to fair value due to the requirements to extinguish the liabilities on demand.

iii) *Bank indebtedness and notes payable*

Based on maturity and interest at variable rates, the estimated fair value is approximately equal to their carrying value.

iv) *Capital leases, long debt and debenture*

Based on maturity and interest rates available for similar types of borrowing arrangements, the estimated fair value is approximately equal to carrying value.

(b) **Interest rate and credit risk**

Interest rates, maturities and security affecting the interest and credit risk of the company's financial assets and liabilities have been disclosed in Notes 6 and 7.

(c) **Currency risk**

The company is exposed to currency risk as cash (US\$ 156,367), accounts receivable (US\$ 5,740) and accounts payable (US\$ 10,127) have been translated into Canadian dollars as described in Note 2(e) but will be settled at their US dollar amounts.

To the extent that final settlement amounts differ from those recorded as a result of changes in the relative exchange rates, a foreign exchange translation gain or loss will be recorded.

**18. RELATED PARTY TRANSACTIONS**

The company incurred professional fees, to a law firm whose partner was a director of the company at the time the costs were incurred, for services provided totalling approximately \$20,850 (2003: - \$74,790) in the normal course of operations. These transactions were recorded at exchange amount, being the amount agreed to by the related parties based on approximate fair market value.

**19. SUBSEQUENT EVENTS**

On June 16 the company acquired 100% of the outstanding common shares of Legal Credit Recovery Corp, a small consumer collection agency. This business acquisition will be accounted for using the purchase method and the acquired interest will be consolidated from the date of acquisition.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2004 AND 2003**

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**19. SUBSEQUENT EVENTS - continued**

The assets acquired and consideration given are as follows:

	<u>2004</u>
Assets acquired, at fair value	
Assets, net of liabilities	\$ 2,930
Goodwill and other intangibles	<u>287,157</u>
	<u>\$290,087</u>
Consideration	
Cash	\$255,000
Other acquisition costs	<u>35,087</u>
	<u>\$290,087</u>

In addition to the consideration paid by the company in respect of its acquisition, additional consideration may be payable based on the achievement of certain threshold levels of revenue.

The company has announced that it is moving into new offices in Mississauga at the beginning of October 2004. This move will result in the company incurring a cash payment of \$195,687 to terminate the existing lease and will require additional non-cash adjustments to the Balance Sheet to fully amortize the existing leasehold improvements, partially offset by removing the liabilities for lease inducement costs and other liabilities, which in aggregate equal \$169,904.

On October 25, 2004 the Company announced that it has entered into an agreement to acquire the shares of Synergex Group Inc. at a purchase price of \$14,399,999 plus the amount of Synergex' closing date working capital. The purchase price is to be satisfied by Carma's issuance of 53,333,333 common shares and such number of preferred shares as will have an aggregate value equal to Synergex' working capital as at closing. This transaction will be accounted for as a continuity of interests in accordance with EIC 89, "Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries". Synergex is owned by David Aiello, who is a Senior Officer, Director and the majority shareholder of Carma. Completion of this transaction is subject to a number of conditions, including but not limited to, acceptance by the TSX Venture Exchange and disinterested shareholder approval at a meeting to be called to consider this transaction.

**20. COMPARATIVE FIGURES**

Comparative figures have been reclassified in accordance with the current year's presentation.

**CONSOLIDATED FINANCIAL STATEMENTS OF THE CORPORATION**  
**MAY 31, 2003 AND 2002**

## **Management's Responsibility for Financial Statements**

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and in other sections of this Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies which management believes are appropriate for the Company are described in note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three Directors is appointed by the Board.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

Mintz and Partners LLP, the Company's external auditors, who are appointed by the Company's shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

William D. Zabarylo  
Chief Financial Officer

Ralph Sickinger  
Vice Chairman of the Board

August 22, 2003

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## **Auditors' Report**

### **To the Shareholders of Carma Financial Services Corporation**

We have audited the consolidated balance sheets of Carma Financial Services Corporation as at May 31, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the corporation'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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at May 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

CARMA FINANCIAL SERVICES CORPORATION  
CONSOLIDATED BALANCE SHEETS

AS AT MAY 31	2003	2002
<b>ASSETS</b>		
CURRENT		
Cash	\$ 1,681,596	\$ 195,833
Short term investments (Note 4)	-	20,000
Accounts receivable	683,277	1,422,162
Prepaid and sundry (Note 3)	<u>454,167</u>	<u>525,807</u>
INVESTMENTS (Note 4)	2,819,040	2,163,802
CAPITAL ASSETS (Note 5)	<u>140,000</u>	<u>140,000</u>
	<u>1,189,554</u>	<u>1,476,740</u>
	<u>\$ 4,148,594</u>	<u>\$ 3,780,542</u>
<b>LIABILITIES</b>		
CURRENT		
Bank indebtedness (Note 6)	\$ 233,850	\$ 127,681
Accounts payable and accrued liabilities	1,348,015	1,420,946
Deferred revenue	1,771,384	1,757,101
Current portion of long-term debt (Note 7)	3,449	131,300
Current portion of obligation under capital leases (Note 8)	66,497	317,199
Current portion of deferred gain on sale of capital assets	-	235,568
Current portion of lease inducements	9,228	8,854
Income taxes payable	3,016	3,016
Convertible debentures (Note 9)	-	150,000
Note payable (Note 10)	<u>-</u>	<u>50,000</u>
DEFERRED REVENUE	3,435,439	4,201,665
DEFERRED GAIN ON SALE OF CAPITAL ASSETS	77,729	175,029
LEASE INDUCEMENTS	-	54,837
LONG-TERM DEBT (Note 7)	60,855	70,831
OBLIGATION UNDER CAPITAL LEASES (Note 8)	-	3,449
DEBENTURES (Note 11)	134,163	188,803
	<u>580,000</u>	<u>-</u>
	<u>4,288,186</u>	<u>4,694,614</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
CAPITAL STOCK (Note 12)	3,278,575	2,211,002
WARRANTS (Note 12)	1,007,206	-
DEFICIT	(4,425,373)	(3,125,074)
	(139,592)	(914,072)
	<u>\$ 4,148,594</u>	<u>\$ 3,780,542</u>
APPROVED ON BEHALF OF THE BOARD:		
Director	<i>W. J. Staryk</i>	
Director	<i>S. A. L. S.</i>	

See Accompanying Notes

**CARMA FINANCIAL SERVICES CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS**

<b>FOR THE YEARS ENDED MAY 31</b>	<b>2003</b>	<b>2002</b>
REVENUES	\$ 6,217,295	\$ 9,479,882
DIRECT COSTS OF COLLECTIONS AND CREDIT REPORTING	<u>3,396,398</u>	<u>4,872,346</u>
MARGIN	<u>2,820,897</u>	<u>4,607,536</u>
OPERATING EXPENSES		
Sales, general and administrative	2,877,953	4,235,447
Interest on loans and debentures	304,483	228,982
Financing and investor relations	523,000	181,582
Amortization of capital assets	527,297	641,081
Gain on sale of capital assets	(208,152)	(285,481)
	<u>4,024,581</u>	<u>5,001,611</u>
LOSS - Before under noted item	<u>(1,203,684)</u>	<u>(394,075)</u>
OTHER COSTS		
Loss on sale of divisional assets (Note 13)	<u>(96,615)</u>	<u>(239,782)</u>
	<u>(96,615)</u>	<u>(239,782)</u>
LOSS - Before amortization of goodwill	<u>(1,300,299)</u>	<u>(633,857)</u>
AMORTIZATION OF GOODWILL	<u>-</u>	<u>(312,706)</u>
NET LOSS (Note 14)	<u>\$ (1,300,299)</u>	<u>\$ (946,563)</u>
LOSS PER SHARE - Before amortization of goodwill (Note 15)	<u>\$ (0.08)</u>	<u>\$ (0.04)</u>
NET LOSS PER SHARE (Note 15)	<u>\$ (0.08)</u>	<u>\$ (0.07)</u>

**CARMA FINANCIAL SERVICES CORPORATION  
CONSOLIDATED STATEMENTS OF DEFICIT**

<b>FOR THE YEARS ENDED MAY 31</b>	<b>2003</b>	<b>2002</b>
BALANCE - Beginning of year	\$ (3,125,074)	\$ (2,178,511)
Net loss	<u>(1,300,299)</u>	<u>(946,563)</u>
BALANCE - End of year	<u>\$ (4,425,373)</u>	<u>\$ (3,125,074)</u>

CARMA FINANCIAL SERVICES CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,300,299)	\$ (946,563)
Items not affecting cash		
Amortization of proprietary software	82,438	59,436
Amortization of other capital assets	444,859	581,645
Amortization of goodwill	-	312,706
Deferred gain on sale of capital assets, net of loss on lease cancellation	(208,152)	(285,481)
Net lease inducements	(9,602)	(8,854)
Loss on sale of assets	-	<u>239,782</u>
	(990,756)	(47,329)
Net change from non-cash items from operations (Note 16)	<u>661,646</u>	<u>138,486</u>
<b>CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(329,110)</u>	<u>91,157</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(110,822)	(293,051)
Investment in proprietary software	(88,050)	(104,212)
Proceeds on disposal of capital assets	-	219,350
Investments	20,000	(160,000)
Proceeds on disposal of divisional assets (Note 13)	-	<u>684,214</u>
<b>CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<u>(178,872)</u>	<u>346,301</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in bank indebtedness	106,169	(86,065)
Net repayment of long-term debt	(131,300)	(72,057)
Issuance of capital stock and warrants, net of share issue costs	2,074,779	200,640
Obligations under capital leases	(435,903)	(367,004)
Issuance of debentures	580,000	-
Repayment of convertible debentures	(150,000)	-
Note payable	(50,000)	<u>50,000</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>1,993,745</u>	<u>(274,486)</u>
<b>INCREASE IN CASH</b>	<b>1,485,763</b>	<b>162,972</b>
CASH - Beginning of year	<u>195,833</u>	<u>32,861</u>
CASH - End of year	<u>\$ 1,681,596</u>	<u>\$ 195,833</u>

See Accompanying Notes

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**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Canada Bonded Attorney and Legal Directory Ltd. (CBA), Lumbermen's Credit Bureau Limited (previously 1091540 Ontario Ltd.) and Careers in Finance Ltd. On March 1, 2000 the company acquired 100% control of Interactive Recovery Services Ltd. (IRS) and its subsidiaries. IRS and its subsidiaries have been amalgamated with CBA in June 2001 and subsequently disposed of in May 2002.

**2. SIGNIFICANT ACCOUNTING POLICIES**

a) Earnings per share

In December 2000, The Canadian Institute of Chartered Accountants ("CICA") issued new accounting recommendations for the presentation and disclosure of basic and diluted earnings per share. Effective June 1, 2001, the company adopted these new recommendations on a retroactive basis. The most significant change under the new recommendations is the use of the "treasury stock method" instead of the "imputed earnings approach" in computing diluted earnings per share. Under the treasury stock method:

- exercise of options are assumed at the beginning of the period (or at the time of issuance, if later)
- the proceeds from exercise are assumed to be used to purchase common stock at the average market price during the period; and
- the incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share computation.

b) Proprietary software

The company has developed and maintained software systems to manage the credit reporting (CEPS - Commercial Entity Profiling System) and collections (CARRS - Customized Accounts Receivable Recovery System) business, as well as maintaining client information and history. Costs relating to these software are capitalized if the work being done enhances the existing software and provides additional value to the system. Such costs are amortized over the expected anticipated useful life of the related software. Such amortization commences in the year the products become operational. Expenditures for which there are no apparent future benefits are expensed in the year incurred.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

c) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the straight-line basis as follows:

Proprietary software	10 years
Computer equipment	3 years
Furniture and fixtures	10 years
Equipment under capital leases	varying rates from 3 to 6 years
Office equipment	varying rates from 7 to 10 years
Computer software	3 years
Leasehold improvements	remaining life of the lease
Computer database under sale-leaseback	2 years

d) Revenue recognition

The company recognizes revenues as earned over the contract period. Revenue from credit reporting and letter subscription is recognized over the life of the contract or subscription on a straight-line basis. Revenue from credit assessment program is recognized as the services are provided. Sales commissions are expensed over the life of the related contract or subscription agreement, also on a straight-line basis.

Revenue earned on a contingency basis as a result of collection activities is recorded only when collection of the specific outstanding accounts has been completed.

e) Income taxes

The company follows the asset and liability approach to accounting and reporting for income taxes.

Income taxes are provided at current rates for all items included in the Statement of Operations regardless of the period in which such items are reported for income tax purposes. The principal item which results in temporary differences between financial and tax reporting purposes is amortization of capital assets. Future income taxes are adjusted for current changes in income tax rates.

Future income tax assets are recorded to the extent that management believes it is more likely than not that benefits arising in respect of deductible temporary differences and carry forward of unused losses will be able to be used in the carry forward periods.

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**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

f) Translation of foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and liabilities are converted at rates of exchange in effect at the date of transaction. Revenue and expense items are translated at average rates prevailing during the year. Realized and unrealized foreign exchange gains and losses are included in earnings.

g) Capital leases

Leases which transfer substantially all of the benefits and risks of ownership of the property to the company are treated as an acquisition of an asset and the incurrence of an obligation.

h) Cost of raising capital

Incremental costs incurred in respect of raising capital are charged against equity proceeds raised. Costs incurred prior to completion of raising capital are included in deferred financing charges.

i) Lease inducements

Lease inducements are deferred in the year they are received and are amortized on a straight-line basis over the term of the respective leases.

j) Non-monetary transactions

Transactions in which shares or other non-cash consideration are exchanged for assets or services are valued at the fair value of the assets or services involved in accordance with Section 3830 ("Non-monetary transactions") of the CICA Handbook.

k) Stock-based compensation

Effective June 1, 2002 the company adopted Section 3870 ("Stock-based Compensation and Other Stock-based payments") of the CICA Handbook. As permitted by Section 3870, the company has applied this change retroactively for new awards granted on or after June 1, 2002 as well as awards granted before June 1, 2002. The company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and stock and stock option awards granted to non-employees will be accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock will be determined by the quoted market price of the company's stock.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

**l) Short term investments**

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

**m) Sale-leaseback transaction**

Leases, under sale-leaseback transactions, which transfer substantially all of the benefits and risks of ownership of the property back to the company are treated as an acquisition of an asset and the incurrence of an obligation. When a leaseback is classified as a capital lease, profit or loss arising on the sale is deferred and amortized in proportion to the amortization of the leased asset.

**n) Use of estimates**

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles has required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at May 31, 2003 and 2002 and the revenues and expenses reported for the years then ended. Accordingly, the company's measurements are based upon management's best estimates based on existing knowledge which reflect the company's planned course of action and probable economic conditions. However, it is possible that actual events may be different from those anticipated. Accordingly, such differences could impact the carrying values of assets as well as future results of operations and cash flows.

**3. PREPAID AND SUNDAY**

Prepaid and sundry consists of:

	<u>2003</u>	<u>2002</u>
Prepaid sales commissions	\$ 270,960	\$ 273,932
Prepaid expenses	183,207	163,495
Deferred financing charges	-	73,380
Promissory note	-	15,000
	<hr/>	<hr/>
	<u>\$ 454,167</u>	<u>\$ 525,807</u>

**4. SHORT TERM INVESTMENTS AND INVESTMENTS**

Short term investments in 2002 bore interest at 1.30% per annum.

Investments are cash pledged and deposited to secure performance under fidelity and surety bonds provided. The deposited cash bears no interest, is restricted and is repayable to the company upon cancellation of the bonds.

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**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

**5. CAPITAL ASSETS**

<u>2003</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Proprietary software	\$ 1,049,533	\$ 634,740	\$ 414,793
Computer equipment	490,621	426,590	64,031
Furniture and fixtures	231,987	158,708	73,279
Equipment under capital leases	502,884	308,641	194,243
Office equipment	67,389	58,145	9,244
Computer software	236,941	137,692	99,249
Leasehold improvements	373,593	38,878	334,715
Computer database under sale-leaseback	<u>754,350</u>	<u>754,350</u>	<u>-</u>
	<u><b>\$ 3,707,298</b></u>	<u><b>\$ 2,517,744</b></u>	<u><b>\$ 1,189,554</b></u>
<u>2002</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Proprietary software	\$ 961,483	\$ 552,302	\$ 409,181
Computer equipment	457,771	372,362	85,409
Furniture and fixtures	231,987	146,074	85,913
Equipment under capital leases	412,397	253,884	158,513
Office equipment	67,389	55,220	12,169
Computer software	177,091	84,618	92,473
Leasehold improvements	355,471	20,651	334,820
Computer database under sale-leaseback	<u>754,350</u>	<u>456,088</u>	<u>298,262</u>
	<u><b>\$ 3,417,939</b></u>	<u><b>\$ 1,941,199</b></u>	<u><b>\$ 1,476,740</b></u>

The carrying value of proprietary software is comprised of:

	<u>2003</u>	<u>2002</u>
Accumulated capitalized expenditures on proprietary software, net	\$ 409,181	\$ 364,405
Costs incurred during the year	<u>88,050</u>	<u>104,212</u>
Less: Amortization	497,231	468,617
	<u>82,438</u>	<u>59,436</u>
Net carrying amount	<u><b>\$ 414,793</b></u>	<u><b>\$ 409,181</b></u>

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**6. BANK INDEBTEDNESS**

The bank indebtedness includes a demand loan of \$240,000 (2002 - \$325,000) which bears interest at 4% above the bank's prime lending rate and is secured by a general security agreement. Bank indebtedness includes the following:

	<u>2003</u>	<u>2002</u>
Cash held in trust accounts to be transferred to general accounts (Note 18)	\$ 121,820	\$ 352,109
Demand loan	(240,000)	(325,000)
Bank overdraft	<u>(115,670)</u>	<u>(154,790)</u>
	<u>\$ (233,850)</u>	<u>\$ (127,681)</u>

**7. LONG-TERM DEBT**

	<u>2003</u>	<u>2002</u>
Term loan, monthly payments of \$942 principal plus interest at prime plus 1.25%, due March 2004	\$ 3,449	\$ 14,749
Promissory note at an effective interest rate of 23%, due September 2002	-  <u>-</u>	<u>120,000</u>
Less: Current portion of long term debt	<u>3,449</u> <u>3,449</u>	<u>134,749</u> <u>131,300</u>
	<u>\$ -</u>	<u>\$ 3,449</u>

The loan is secured by a general security agreement and a chattel mortgage covering equipment and computer software. The promissory note is secured by personal guarantee by shareholders.

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**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**8. LEASE COMMITMENTS**

(a) Capital leases

The Company has commitments under a capital lease agreement for equipment, whereby it is required to make equal monthly blended payments of principal and interest of \$9,741.

Minimum capital lease payments, including principal and interest, for the next five years are:

2004	\$ 88,565
2005	50,150
2006	46,188
2007	41,968
2008	<u>23,810</u>
	250,681
Less: Amount representing interest	<u>50,021</u>
Net obligation	200,660
Current portion of capital lease obligation	<u>66,497</u>
Long term portion of capital lease	<u>\$ 134,163</u>

(b) Rental and operating leases

Minimum annual lease payments under annual rental and operating leases, are as follows:

2004	\$ 178,000
2005	196,000
2006	216,000
2007	238,000
2008 and thereafter	<u>644,000</u>
	<u>\$ 1,472,000</u>

**9. CONVERTIBLE DEBENTURES**

In 2001, through a private placement, the company raised \$150,000 by issuing convertible debentures bearing interest at 8% and maturing on January 31, 2003.

The debentures were convertible at the option of the holder into common shares and purchase warrants of the company at the price of \$0.26 per unit. Each warrant was entitled to the purchase of one additional common share at \$0.30 at any time up to January 31, 2003.

During the year ended May 31, 2003, the above debentures were paid off without conversion.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**10. NOTE PAYABLE**

The note payable bore interest at the rate of 5% per annum, was unsecured and matured at dates between June 1, 2002 and May 31, 2003.

**11. DEBENTURES**

The debentures bear interest at 20% per annum during the first year and 30% per annum during the second year, mature on the earlier of February 13, 2005 and the date of closing of the sale of the company or the sale of substantial part of the assets of the company, and are secured by all the assets of the company and its wholly owned subsidiaries ranking only behind the senior lender.

The debentures are due to a company controlled by an individual who has, through his indirect ownership, significant influence over Carma Financial Services Corporation.

**12. CAPITAL STOCK****a) Authorized and issued****Authorized**

Unlimited common shares

Unlimited Series I Preference Shares, cumulative at \$0.01 per share, redeemable at \$0.50 per share each, non-voting, convertible into common shares on a share-for-share basis

**Issued**

<u>Common shares</u>	<u>Number</u>	<u>Amount</u>
Balance as at June 1, 2001	14,098,453	\$ 2,010,362
Employee stock option plan (1)	1,600	640
Private placement (2)	<u>800,000</u>	<u>200,000</u>
Balance as at May 31, 2002	14,900,053	2,211,002
Employee stock option plan (1)	543,000	81,450
July 3, 2002 private placement (3)	1,470,000	335,000
April 10, 2003 private placement (4)	1,666,666	100,000
May 15, 2003 private placement (5)	2,000,000	200,000
May 30, 2003 private placement (6)	<u>15,750,000</u>	<u>1,575,000</u>
	36,329,719	4,502,452
less: share issue costs		(1,223,877)
<b>Balance as at May 31, 2003</b>	<b><u>36,329,719</u></b>	<b><u>\$ 3,278,575</u></b>

- Options granted under the Employee Stock Option Plan are exercisable over a period up to five years from date of grant. The option price and the exercise price shall be the market price of the company's shares on the date the option is granted. The total number of shares which are reserved and set aside under the Plan are 2,145,000. No one person may receive or hold options entitling the purchase of greater than 5% of the number of issued and outstanding shares of the company.

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**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**12. CAPITAL STOCK - continued**

2. On February 7, 2002, the company completed a private placement of 800,000 units at \$0.25 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.30 per share until January 29, 2004.
3. On July 3, 2002, the company completed a private placement of 1,470,000 units at \$0.50 per unit. Each unit consists of one common share and one exchange right entitling the holder to acquire one Series I Preference Share in exchange for one common share for up to 2 years from the date of closing.

The shares issued above are subject to a minimum hold period of one year.

Under the terms of Unit Purchase Agreement, notwithstanding the provisions of the Series I Preference Shares, Carma has the right to redeem the Series I Preference Shares and to satisfy the redemption price for \$400,000. As at May 31, 2003, the Company held a note receivable of \$400,000 from 1491209 Ontario Inc, a party related to the subscriber of the common shares above, which is repayable on demand, bears interest at 6% per annum and is secured by a general security agreement on the accounts receivable of 1491209 Ontario Inc. Subsequent to the year-end, the 1,470,000 common shares were exchanged for 1,470,000 Series I Preference Shares and the company reassigned its right to receive the payment of the note receivable on redemption of the Series I Preference Shares (Note 21). Therefore the note receivable has been deducted from the proceeds of the above private placement.

4. On April 10, 2003, the company completed a private placement of 1,666,666 units for gross proceeds of \$100,000. Each unit consists of one common share and one half common share purchase warrant. Each warrant is exercisable into one common share at \$0.10 per share until April 9, 2004.

The securities issued above are subject to a one year hold period ending on March 19, 2004.

5. On May 15, 2003, the company completed a private placement of 2,000,000 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 per share until March 27, 2004.

The common shares cannot be traded until March 27, 2004.

6. On May 30, 2003, the company completed a private placement of 15,750,000 units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at \$0.10 per share until June 1, 2004.

The securities issued above are subject to a statutory hold period until October 1, 2003.

As consideration for the services of the agent involved in the issue of the above private placement, 3,100,000 warrants, exercisable into common shares at \$0.10 per share for a period of two years, were issued.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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**12. CAPITAL STOCK - continued**

7. In accordance with the policies of the Ontario Securities Commission (OSC) concerning the disposition of common shares by certain persons, certificates representing 5,190,000 common shares have been placed in escrow and may not be sold, pledged or otherwise disposed of without the express consent of the OSC. The escrowed shares will be released automatically to the escrow shareholders on a prorata basis over 57 months after the date of final receipt for filing the original prospectus of March 10, 1999 "Prospectus Date". 3,633,000 shares were released as at May 31, 2003.

b) Stock options

The company has granted various stock options to employees, officers, directors and consultants to purchase one common share per option which expire 6 months after an employee dies or 30 days after they cease to be employed by the company on various dates as follows:

	<u>Options Outstanding</u>	Weighted Average Exercise Price	<u>Options Exercisable</u>	Weighted Average Exercise Price
Balance, June 1, 2001	810,300	\$ 0.54	810,300	\$ 0.54
Granted	1,383,500	0.48	1,383,500	0.48
Cancellations	(787,200)	0.53	(787,200)	0.53
Exercised	<u>(1,600)</u>	0.40	<u>(1,600)</u>	0.40
Balance, May 31, 2002	1,405,000	0.48	1,405,000	0.48
Granted	832,000	0.10	144,000	0.10
Cancellations	(390,000)	0.42	(390,000)	0.42
Exercised	<u>(543,000)</u>	0.15	<u>(543,000)</u>	0.15
Balance, May 31, 2003	<u>1,304,000</u>	<u>\$ 0.20</u>	<u>616,000</u>	<u>\$ 0.20</u>

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**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**12. CAPITAL STOCK - continued**

The Company has outstanding and exercisable stock options as follows:

<u>Price</u>	<u>Number</u>	<u>Expiry Date</u>	<u>Outstanding</u>		<u>Exercisable</u>		Exercisable Weighted Average Exercise Price
			Weighted Average Remaining Life	Weighted Average Remaining Exercise Price	Number		
\$ 0.10	832,000	December, 2004	1.5 years	0.10	144,000		0.10
\$ 0.17 to 0.20	100,000	May, 2004	1 year	0.185	100,000		0.185
\$ 0.40 to 0.60	<u>372,000</u>	June, 2003	0.1 year	0.50	<u>372,000</u>		0.50
	<u>1,304,000</u>				<u>616,000</u>		

c) Share purchase warrants

The following is a summary of share purchase warrants activity:

	<u>Number</u>	<u>Exercise price per share</u>	<u>Expiry Date</u>
Balance, as of June 1, 2001	576,923	\$0.30	January 31, 2003
Issued	800,000	\$0.30	January 29, 2004
Expired	<u>(75,000)</u>	\$3.00	
Balance, May 31, 2002	1,301,923		
Issued	21,683,333	\$0.10	March 2004 to
Expired	<u>(501,923)</u>	\$0.30	May 2005
Balance, May 31, 2003	<u>22,483,333</u>		

All warrants are exercisable at the time of issue.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**12. CAPITAL STOCK - continued**

d) Fair value

In accordance with Section 3870, the company discloses pro forma information regarding net income as if the company had accounted for its employees and directors stock options granted after June 1, 2002 under the fair value method. The fair value of stock options issued by the company during the year has been determined using the Black-Scholes option pricing model with the following assumptions: weighted-average risk-free interest rate of 4%; dividend yield of 0%; weighted-average volatility factor of the expected market price of the Company's common shares of 203%; and a weighted-average expected life of the options of 2 years.

The weighted average fair value of stock options granted during the year ended May 31, 2003 was \$0.05 per share. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma net income under Canadian GAAP, including the proforma effect of awards granted prior to June 1, 2002, would be reduced by \$21,557 (2002 - \$164,000) for the year ended May 31, 2003. Basic earnings-per-share figures would not have changed.

The weighted average fair value of warrants granted during 2003 has been estimated using a fair value based method whereby the gross proceeds of the private placement is assigned between the common shares and the warrants based on their respective fair values at the date of closing. 21,683,333 warrants were issued to non-employees during the year and have been recorded in the attached consolidated financial statements at their fair value of \$1,007,206. Since they were issued in connection with private placements described in Note 12(a) above, they have been recorded as part of share issue costs.

**13. DISPOSAL OF DIVISIONAL ASSETS**

In May 2002, the company sold the assets pertaining to its wholly owned retail consumer collection division and its Montreal office for proceeds of \$850,000 before expenses of \$165,786 resulting in a loss on sale of assets of \$239,782.

In connection with the above sale, the buyer had taken over accounts receivable valued at \$201,131. If the amount collected by the buyer, within 120 days of the closing date, was less than \$201,131, the company would pay the buyer any deficiency and the buyer would assign the uncollected accounts receivable to the company, free and clear of all encumbrance. If the buyer collected an amount greater than \$201,131, the buyer would pay the excess to the company. During the year ended May 31, 2003, the company paid to the buyer an additional \$10,364 for uncollected accounts receivable.

In connection with the above sale, the buyer had agreed to pay an additional consideration of up to a maximum of \$135,000 in cash contingent on the achievement of targeted commission income and other revenue during the first fiscal year of the buyer. The targeted commission income and other revenue has not been achieved for the buyer's fiscal year ended June 30, 2003. Therefore no additional consideration is payable.

As a result of the above sale of divisional assets, the company incurred additional costs of \$86,251 during the year for the cancellation of various leases.

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/Continued...

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**14. INCOME TAXES**

The provision for income taxes differs from the expense that would be obtained by applying statutory rates as a result of the following:

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Combined statutory basic Canadian federal and provincial tax rates	\$ (475,909)	(36.60)	\$ (365,373)	(38.60)
Losses for which no income tax benefits have been recorded	<u>475,909</u>	<u>36.60</u>	<u>365,373</u>	<u>38.60</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

There is no income tax provision (recovery) from continuing operations. The nature and tax effects of the temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	<u>2003</u>	<u>2002</u>
Future income tax assets are comprised of:		
- Losses carried forward	\$ 801,000	\$ 705,000
- Capital assets	450,000	194,000
- Lease inducements	25,000	31,000
- Deferred gain on sale of capital assets	-	112,000
- Other	<u>5,000</u>	<u>5,000</u>
	1,281,000	1,047,000
Valuation allowance	<u>(1,281,000)</u>	<u>(1,047,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

No future income tax asset has been recorded in respect of the above net future income tax assets because the company cannot determine whether it is more likely than not that it will be able to realize the future income tax assets during the carry forward period.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**14. INCOME TAXES - continued**

The company has non-capital tax losses of approximately \$2,203,000, the benefits of which have not been recorded. The losses may be used to reduce future years' taxable income and expire approximately as follows:

2005	\$ 147,000
2006	251,000
2007	181,000
2008	754,000
2009	100,000
2010	<u>770,000</u>
	<u>\$ 2,203,000</u>

**15. LOSS PER SHARE**

a) Basic Loss Per Share

Loss per share is calculated on the basis of the weighted average number of common shares outstanding for the year which amount to 15,323,529 shares (2002 - 14,369,532 shares).

b) Fully-Diluted Loss Per Share

The fully-diluted loss per share has not been calculated as the effect on the loss per share would be anti-dilutive.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**16. SUPPLEMENTAL CASH FLOW DISCLOSURES**

The net change in non-cash assets and liabilities arising from operations is comprised of:

	<u>2003</u>	<u>2002</u>
Decrease (increase) in accounts receivable	\$ 745,954	\$ (281,133)
Decrease (increase) in prepaid and sundry	71,640	(52,338)
(Decrease) increase in accounts payable and accrued liabilities	(72,931)	248,725
(Decrease) increase in deferred revenue	<u>(83,017)</u>	<u>223,232</u>
	<u>\$ 661,646</u>	<u>\$ 138,486</u>
Interest paid	<u>\$ 317,391</u>	<u>\$ 208,324</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

**Non-cash transactions**

Non-cash transactions for the year are as follows:

- a) Revenue for the year includes an amount of \$59,147 (2002 - \$37,547) which was settled by barter transaction.
- b) During the year the company granted 100,000 stock options, exercisable into common shares at \$0.10 each as part consideration, together with the repayment of all remaining obligations, for the buy-out of a capital lease obligation and the related computer database under sale-leaseback. There was no such transaction in 2002.

**CARMA FINANCIAL SERVICES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MAY 31, 2003 AND 2002**

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#### 17. SEGMENTED INFORMATION

The company considers that its operations fall principally into two business segments, namely, credit reporting and evaluation, and third party debt recovery, whose operating results are regularly reviewed by management to assess their performance and allocate resources accordingly. Operations are in one geographical area, that being Canada.

The company's operating segments are as follows:

	<u>Credit Reporting and Evaluation</u>	<u>Third party debt recovery</u>	<u>Total</u>
Revenue	\$ 3,027,746	\$ 3,189,549	\$ 6,217,295
Direct costs	<u>1,720,546</u>	<u>1,675,852</u>	<u>3,396,398</u>
Margin	<u>\$ 1,307,200</u>	<u>\$ 1,513,697</u>	<u>2,820,897</u>
Sales, general, and administration expenses			2,877,954
Interest expense			304,483
Financing and investor relations			523,000
Amortization			527,297
Gain on sale of capital assets			(208,153)
Loss on sale of divisional assets			<u>96,615</u>
Net loss			<u>\$ (1,300,299)</u>
Capital Assets (net of amortization)	<u>\$ 861,705</u>	<u>\$ 327,849</u>	<u>\$ 1,189,554</u>

In 2002, the company's operating segments were as follows:

	<u>Credit Reporting and Evaluation</u>	<u>Third party debt recovery</u>	<u>Total</u>
Revenue	\$ 3,062,982	\$ 6,416,900	\$ 9,479,882
Direct costs	<u>1,764,271</u>	<u>3,108,075</u>	<u>4,872,346</u>
Margin	<u>\$ 1,298,711</u>	<u>\$ 3,308,825</u>	<u>4,607,536</u>
Sales, general, and administration expenses			4,235,447
Interest expense			228,982
Financing and investor relations			181,582
Amortization			641,081
Gain on sale of capital assets			(285,481)
Amortization of goodwill			312,706
Loss on sale of divisional assets			<u>239,782</u>
Net loss			<u>\$ (946,563)</u>
Capital Assets (net of amortization)	<u>\$ 1,001,765</u>	<u>\$ 474,975</u>	<u>\$ 1,476,740</u>

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**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**18. TRUST ACCOUNTS**

The company keeps collections on behalf of its clients in separate trust bank accounts.

The balances held in trust in respect of collection activities consists of:

	<u>2003</u>	<u>2002</u>
Cash on deposit	\$ 426,844	\$ 991,808
Less: amounts due to clients	<u>(305,024)</u>	<u>(639,699)</u>
Surplus to be transferred to general accounts	<u>\$ 121,820</u>	<u>\$ 352,109</u>

**19. FINANCIAL INSTRUMENTS**

**(a) Fair value**

The company's financial assets and liabilities are valued at management's best estimates of fair value as follows:

i) *Cash and accounts receivable*

The carrying amount is equal to fair value due to the instant liquidity of the assets.

ii) *Accounts payable and accrued liabilities*

The carrying amount is equal to fair value due to the requirements to extinguish the liabilities on demand.

iii) *Bank indebtedness and notes payable*

Based on maturity and interest at variable rates, the estimated fair value is approximately equal to their carrying value.

iv) *Capital leases, long debt and debenture*

Based on maturity and interest rates available for similar types of borrowing arrangements, the estimated fair value is approximately equal to carrying value.

**(b) Interest rate and credit risk**

Interest rates, maturities and security affecting the interest and credit risk of the company's financial assets and liabilities have been disclosed in Notes 6 and 7.

**(c) Currency risk**

The company is exposed to currency risk as cash (US\$ 45,370), accounts receivable (US\$ 16,837) and accounts payable (US\$ 2,836) have been translated into Canadian dollars as described in Note 2(f) but will be settled at their US dollar amounts.

To the extent that final settlement amounts differ from those recorded as a result of changes in the relative exchange rates, a foreign exchange translation gain or loss will be recorded.

**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**20. RELATED PARTY TRANSACTIONS**

The company incurred professional fees, to a law firm in which a director is a partner, for services provided totalling approximately \$74,790 (2001: - \$31,757) in the normal course of operations. The consideration has been established and agreed to by the related parties based on approximate fair market value.

**21. SUBSEQUENT EVENTS**

On June 23, 2003, the holder of the 1,470,000 common shares, issued as part of the July 3, 2002 private placement, tendered the said common shares in exchange for 1,470,000 Series I Preference Shares.

In July 2003, in accordance with the Unit Purchase Agreement dated May 10, 2002, notwithstanding the provisions of the Series I Preference Shares, the company has redeemed the Series I Preference Shares and satisfied the redemption price by assigning its right to receive payment of the note receivable of \$400,000 from 1491209 Ontario Inc (Note 12).

**22. COMPARATIVE FIGURES**

Comparative figures have been reclassified in accordance with the current year's presentation.

**23. CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES DIFFERENCES**

Significant differences between Canadian generally accepted accounting principles ("Canadian GAAP") and U.S. generally accepted accounting principles ("U.S. GAAP") are summarized as follows:

**Balance Sheet**

In 2003 and 2002, there are no significant differences in total assets and shareholders' equity as reported under Canadian GAAP and U.S. GAAP.

**Consolidated Statement of Operations**

In 2003 and 2002, there are no significant differences in the consolidated statement of operations prepared in accordance with Canadian GAAP and U.S. GAAP.

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**CARMA FINANCIAL SERVICES CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2003 AND 2002**

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**23. CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES DIFFERENCES - continued**

**Consolidated Statement of Cash Flows**

In 2003 and 2002, there are no significant differences in the consolidated statement of cash flows prepared in accordance with Canadian GAAP and U.S. GAAP.

**Additional Selected Disclosures**

a) **Valuation of outstanding stock options**

United States GAAP (FAS 123) requires certain disclosures regarding stock options granted to employees as compensation under stock option plans. Because the company applies principles of APB 25, accounting for stock issued to employees, which are the same as Canadian generally accepted accounting principles, there are no differences noted in respect of the options granted.

However, in accordance with FAS 123, the company would be required, in any event, to disclose the following:

The company is required to adopt FAS 123, Accounting for Stock-Based Compensation. In accordance with the provisions of FAS 123, therefore, the company applied APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock option plans, the company would not recognize compensation expense for its stock-based compensation plans as the exercise price of options granted under the plan was not less than the current fair market value of common shares.

FAS 123 requires entities that account for awards for stock based compensation to employees in accordance with APB 25 to present pro-forma disclosure of net income and earnings per share as if compensation cost was measured at the date of grant based on fair value of the award. The company has followed the disclosures requirement of Section 3870 of the CICA Handbook, which is substantially similar to U.S. GAAP (FAS 123). Since the Company has applied this change retroactively for all awards outstanding, there are no material differences between Canadian and U.S. in relation to disclosures under FAS 123.

b) **Income taxes**

The method of accounting for income taxes adopted by the company is substantially similar to U.S. GAAP ("FAS 109"). Accordingly, there are no material net differences between Canadian and U.S. GAAP in relation to accounting for income taxes except for the use of different terminologies as U.S. terminology refers to "deferred tax" assets or liabilities. There would be no other change in disclosures or calculation in Note 15 to conform with U.S. GAAP.

**SCHEDULE "H"**  
**FINANCIAL STATEMENTS OF SYNERGEX**

**SYNERGEX GROUP INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2004**  
**(Unaudited)**

**SYNERGEX GROUP INC.**  
**INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2004**  
**(Unaudited)**

	<b>Page</b>
Interim Consolidated Balance Sheet	1
Interim Consolidated Statement of Income	2
Interim Consolidated Statement of Retained Earnings	3
Interim Consolidated Statement of Cash Flows	4
Notes to Interim Consolidated Financial Statements	5

# SYNERGEX GROUP INC.

## INTERIM CONSOLIDATED BALANCE SHEET

**As at October 31, 2004**  
**(with comparatives as at December 31, 2003)**  
**(Unaudited)**

	Oct. 31 2004	Dec. 31 2003
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	4,934,252	8,336,628
Accounts receivable	25,893,158	25,729,826
Inventory	3,657,321	485,632
Prepaid expenses and sundry receivables	255,841	329,196
Due from related companies	155,196	89,292
Income taxes receivable	174,061	-
	<b>35,069,829</b>	<b>34,970,574</b>
<b>Other Assets</b>		
Future income taxes	555,000	818,000
Equipment	1,545,898	1,437,352
	<b>2,100,898</b>	<b>2,255,352</b>
	<b>37,170,727</b>	<b>37,225,926</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Bank indebtedness	-	-
Accounts payable and accrued liabilities	29,803,295	29,369,601
Income taxes payable	-	441,487
Current portion of capital lease	-	39,195
	<b>29,803,295</b>	<b>29,850,283</b>
<b>Other Liabilities</b>		
Future income taxes	59,000	59,000
Due to a shareholder - (Note 2)	707,193	7,796,504
	<b>766,193</b>	<b>7,855,504</b>
<b>Total Liabilities</b>	<b>30,569,488</b>	<b>37,705,787</b>
<b>Minority Interest</b>	<b>160,195</b>	<b>65,944</b>
<b>Shareholders' Equity</b>		
Stated capital - (Note 3)	5,500,200	200
Retained earnings (deficit)	940,844	(546,005)
	<b>6,441,044</b>	<b>(545,805)</b>
	<b>37,170,727</b>	<b>37,225,926</b>

*See accompanying notes.*

**SYNERGEX GROUP INC.**  
**INTERIM CONSOLIDATED STATEMENT OF INCOME**

**For the ten months ended October 31, 2004  
 (with comparatives for the year ended December 31, 2003)  
 (Unaudited)**

	Oct. 31 2004	Dec. 31 2003
	\$ (ten months)	\$ (twelve months)
<b>Revenue</b>		
Sales	73,119,436	97,177,133
Interest	8,614	17,304
	<b>73,128,050</b>	<b>97,194,437</b>
<b>Cost of Sales</b>	<b>65,210,406</b>	<b>87,277,587</b>
<b>Gross Profit</b>	<b>7,917,644</b>	<b>9,916,850</b>
<b>Expenses</b>		
Amortization	331,528	360,580
Interest and bank charges	24,772	193,230
General and administrative	5,045,483	6,190,254
Loss on disposal of equipment	-	3,862
	<b>5,401,783</b>	<b>6,747,926</b>
<b>Income before Income Taxes</b>	<b>2,515,861</b>	<b>3,168,924</b>
<b>Provision for Income Taxes</b>	<b>934,761</b>	<b>1,010,361</b>
<b>Income before Minority Interest</b>	<b>1,581,100</b>	<b>2,158,563</b>
<b>Minority Interest</b>	<b>(94,251)</b>	<b>(88,578)</b>
<b>Net Income for the Period</b>	<b>1,486,849</b>	<b>2,069,985</b>

*See accompanying notes.*

**SYNERGEX GROUP INC.**  
**INTERIM CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

**For the ten months ended October 31, 2004  
 (with comparatives for the year ended December 31, 2003)  
 (Unaudited)**

	Oct. 31 2004	Dec. 31 2003
	\$ (ten months)	\$ (twelve months)
<b>Deficit as Previously Reported</b>	<b>(546,005)</b>	<b>(170,601)</b>
<b>Correction of an Error</b>	<b>-</b>	<b>22,649</b>
<b>Deficit - Beginning of the Period, as Restated</b>	<b>(546,005)</b>	<b>(147,952)</b>
<b>Net Income for the Period</b>	<b>1,486,849</b>	<b>2,069,985</b>
<b>Amalgamation Adjustment</b>	<b>-</b>	<b>(2,468,038)</b>
<b>Retained Earnings (Deficit) - End of the Period</b>	<b>940,844</b>	<b>(546,005)</b>

*See accompanying notes.*

**SYNERGEX GROUP INC.**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the ten months ended October 31, 2004  
 (Unaudited)

	Oct. 31 2004	Dec. 31 2003
	\$ (ten months)	\$ (twelve months)
<b>Cash Flows from Operating Activities</b>		
Net income for the period	1,486,849	2,069,985
<b>Adjustments For</b>		
Amortization	331,528	360,580
Future income taxes	263,000	531,000
Minority interest	94,251	88,578
Loss on disposal of equipment	-	3,862
	<b>2,175,628</b>	<b>3,054,005</b>
<b>Changes in non-cash elements of working capital</b>	<b>(3,548,603)</b>	<b>2,052,117</b>
	<b>(1,372,975)</b>	<b>5,106,122</b>
<b>Cash Flows from Investing Activities</b>		
Net liabilities assumed on amalgamation	-	(4,914,038)
Additions to equipment	(440,075)	(430,956)
Due from related companies	-	705,887
Future income tax assets assumed on amalgamation	-	1,156,000
Proceeds on sale of equipment	-	27,500
Investment in subsidiaries at cost	-	(100)
	<b>(440,075)</b>	<b>(3,455,707)</b>
<b>Cash Flows from Financing Activities</b>		
Bank loan	-	(724,000)
Due to related companies	-	(1,524,659)
Capital stock issued	5,500,000	100
Due to a shareholder	(7,089,326)	4,234,197
Bank indebtedness	-	(221,265)
Capital lease, net	-	(33,686)
	<b>(1,589,326)</b>	<b>1,730,687</b>
<b>Increase (Decrease) in Cash</b>	<b>(3,402,376)</b>	<b>3,381,102</b>
<b>Cash - Beginning of the Period</b>	<b>8,336,628</b>	<b>4,955,526</b>
<b>Cash - End of the Period</b>	<b>4,934,252</b>	<b>8,336,628</b>

*See accompanying notes.*

# SYNERGEX GROUP INC.

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same policies and methods of application as the December 31, 2003 annual audited financial statements. These interim consolidated financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2003 contained elsewhere in this management information circular.

### 2. DUE TO A SHAREHOLDER

The amount due to a shareholder is non-interest bearing and has no specified terms of repayment. The shareholder has indicated in writing that repayment will not be required in the next twelve months and accordingly the amount has been classified as long term.

### 3. STATED CAPITAL

Stated capital is made up of the following:

	Oct. 31 2004	Dec. 31 2003
Capital Stock		
Authorized - without limit as to number:		
Class A preference shares, redeemable at \$1 per share		
Issued		
200 common shares	\$ 200	\$ 200
5,500,000 Class A preference shares	<u>5,500,000</u>	-
	<u>\$ 5,500.200</u>	<u>\$ 200</u>

5,500,000 Class A preference shares were issued during the period in exchange for cash of \$5,500,000.

**SYNERGEX GROUP INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**WITH AUDITORS' REPORT**

**DECEMBER 31, 2003**



**SYNERGEX GROUP INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

	<b>Page</b>
Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Income	3
Consolidated Statement of Deficit	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 12





### AUDITORS' REPORT

To the Shareholders  
**Synergex Group Inc.**

We have audited the consolidated balance sheet of **Synergex Group Inc.** as at December 31, 2003 and the statements of income, deficit and cash flows for the year 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our original report dated March 19, 2004 has been withdrawn and the financial statements have been revised due to the correction of an error, as described in Note 14, to the financial statements.

Chartered Accountants

Toronto, Ontario  
March 19, 2004  
except for Note 14 which  
is as of October 8, 2004

1.

**SYNERGEX GROUP INC.**  
**CONSOLIDATED BALANCE SHEET**

	As at December 31,	
	2003	2002
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	8,336,628	4,955,526
Accounts receivable	25,729,826	38,017,960
Inventory	485,632	331,717
Prepaid expenses and sundry receivables	329,196	347,694
Due from related companies - (Note 3)	89,292	-
Income taxes receivable	-	6,926
	<b>34,970,574</b>	<b>43,659,823</b>
<b>Other Assets</b>		
Future income taxes - (Note 8)	818,000	-
Equipment - (Note 2)	1,437,352	1,398,340
	<b>2,255,352</b>	<b>1,398,340</b>
	<b>37,225,926</b>	<b>45,058,163</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current Liabilities</b>		
Bank indebtedness	-	221,265
Bank loan	-	724,000
Accounts payable and accrued liabilities	29,369,601	39,918,515
Income taxes payable	441,487	-
Due to related companies - (Note 3)	-	729,480
Current portion of capital lease - (Note 4)	39,195	26,235
	<b>29,850,283</b>	<b>41,619,495</b>
<b>Other Liabilities</b>		
Future income taxes - (Note 8)	59,000	-
Obligation under capital lease	-	46,646
Due to a shareholder - (Note 5)	7,796,504	3,562,508
	<b>7,855,504</b>	<b>3,609,154</b>
<b>Total Liabilities</b>	<b>37,705,787</b>	<b>45,228,649</b>
<b>Minority Interest</b>	<b>65,944</b>	<b>(22,634)</b>
<b>Shareholders' Deficiency</b>		
Stated capital - (Note 6)	200	100
Deficit	(546,005)	(147,952)
	<b>(545,805)</b>	<b>(147,852)</b>
	<b>37,225,926</b>	<b>45,058,163</b>

Approved \_\_\_\_\_

*[Signature]*  
*See accompanying notes.*



# SYNERGEX GROUP INC.

## CONSOLIDATED STATEMENT OF INCOME

**For the year ended December 31,**

	2003 \$	2002 \$
<b>Revenue</b>		
Sales	97,177,133	126,547,127
Interest	<u>17,304</u>	<u>5,434</u>
	<b>97,194,437</b>	<b>126,552,561</b>
<b>Cost of Sales</b>	<b>87,277,587</b>	<b>118,485,613</b>
<b>Gross Profit</b>	<b>9,916,850</b>	<b>8,066,948</b>
<b>Expenses</b>		
Amortization	360,580	268,272
Interest and bank charges	193,230	663,341
General and administrative	6,190,254	7,351,803
Loss on disposal of equipment	<u>3,862</u>	<u>7,096</u>
	<b>6,747,926</b>	<b>8,290,512</b>
<b>Income (Loss) before Income Taxes</b>	<b>3,168,924</b>	<b>(223,564)</b>
<b>Provision for Income Taxes - (Note 8)</b>	<b>1,010,361</b>	<b>23,010</b>
<b>Income (Loss) before Minority Interest</b>	<b>2,158,563</b>	<b>(246,574)</b>
<b>Minority Interest</b>	<b>(88,578)</b>	<b>22,649</b>
<b>Net Income (Loss) for the Year</b>	<b>2,069,985</b>	<b>(223,925)</b>

*See accompanying notes.*



# **SYNERGEX GROUP INC.**

## **CONSOLIDATED STATEMENT OF DEFICIT**

**For the year ended December 31,**

	<b>2003</b>	<b>2002</b>
	\$	\$
<b>Retained Earnings (Deficit) as Previously Reported</b>	(170,601)	75,973
<b>Correction of an Error - (Note 14)</b>	<u>22,649</u>	-
<b>Retained Earnings (Deficit) - Beginning of the Year, as Restated</b>	(147,952)	75,973
<b>Net Income (Loss) for the Year</b>	2,069,985	(223,925)
<b>Amalgamation Adjustment - (Note 12)</b>	<u>(2,468,038)</u>	-
<b>Deficit - End of the Year</b>	<u>(546,005)</u>	<u>(147,952)</u>

*See accompanying notes.*



**SYNERGEX GROUP INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31,

	2003 \$	2002 \$
<b>Cash Flows from Operating Activities</b>		
Net income (loss) for the year	2,069,985	(223,925)
<b>Adjustments For</b>		
Amortization	360,580	268,272
Future income taxes	531,000	-
Minority interest	88,578	(22,649)
Loss on disposal of equipment	3,862	7,096
	<b>3,054,005</b>	28,794
<b>Changes in non-cash elements of working capital</b>	<b>2,052,117</b>	770,282
	<b>5,106,122</b>	799,076
<b>Cash Flows from Investing Activities</b>		
Net liabilities assumed on amalgamation	(4,914,038)	(969,582)
Additions to equipment	(430,956)	(645,167)
Due from related companies	705,887	647,462
Future income tax assets assumed on amalgamation	1,156,000	-
Proceeds on sale of equipment	27,500	-
Investment in subsidiaries at cost	(100)	-
	<b>(3,455,707)</b>	(967,287)
<b>Cash Flows from Financing Activities</b>		
Bank loan	(724,000)	724,000
Due to related companies	(1,524,659)	729,480
Capital stock issued	100	-
Due to a shareholder	4,234,197	3,315,836
Bank indebtedness	(221,265)	221,265
Capital lease, net	(33,686)	72,879
	<b>1,730,687</b>	5,063,460
<b>Increase in Cash</b>	<b>3,381,102</b>	4,895,249
<b>Cash - Beginning of the Year</b>	<b>4,955,526</b>	60,277
<b>Cash - End of the Year</b>	<b>8,336,628</b>	<b>4,955,526</b>

*See accompanying notes.*



# **SYNERGEX GROUP INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2003**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the company are in accordance with accounting policies generally accepted in Canada. The significant policies are:

#### **Consolidation**

The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries Shipitnow.com Corp., Synergex Retail Services Inc., Hyperactive Entertainment Inc., Ditan/Synergex Canada Inc., Synergex Solutions Inc., and its 85% owned subsidiary, Synergex Logistics Corp. All significant intercompany accounts and transactions have been eliminated.

#### **Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

#### **Revenue Recognition**

The company reports revenue on a gross sales basis. The company recognizes revenue when it has completed all of the substantial conditions under the sales order and the goods have been shipped to the customer.

#### **Income Taxes**

The company uses the asset/liability method of measuring income taxes based on temporary differences between the financial reporting and income tax bases of assets and liabilities. Future income tax expense represents the change during the year in the future income tax assets and future income tax liabilities. In addition, the future benefits of income tax assets, including unused tax losses, are recognized to the extent that it is more likely than not that such losses will ultimately be utilized. These standards also require that the future income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply when the income tax liabilities or assets are to be either settled or realized. The company provides a valuation allowance on future income tax assets when it is more likely than not that such assets will not be realized.



# SYNERGEX GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### Equipment

Equipment is recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Leasehold improvements	- Straight line over the lease term
Office furniture and equipment	- 20% diminishing balance
Plant equipment	- 20% diminishing balance
Computer equipment	- 30% diminishing balance
Computer software	- 30% diminishing balance
Patent	- 5% diminishing balance
Telephone equipment	- 20% diminishing balance
Internet domain	- Straight line over ten years

### Use of Estimates

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

## 2. EQUIPMENT

Equipment is made up of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2003</u>	<u>Net 2002</u>
Leasehold improvements	\$ 638,643	\$ 339,868	\$ 298,775	\$ 372,474
Office furniture and equipment	666,210	247,087	419,123	258,756
Plant equipment	257,459	90,432	167,027	128,839
Computer equipment	406,813	252,635	154,178	168,549
Computer software	486,445	269,491	216,954	262,635
Patent	15,418	2,418	13,000	13,057
Telephone equipment	53,202	22,258	30,944	37,734
Internet domain	<u>184,464</u>	<u>47,113</u>	<u>137,351</u>	<u>156,296</u>
	<u>\$ 2,708,654</u>	<u>\$ 1,271,302</u>	<u>\$ 1,437,352</u>	<u>\$ 1,398,340</u>

Included in office furniture and equipment is furniture and fixtures under capital lease having an original cost of \$131,929 (2002 - \$131,929) and a net carrying amount of \$63,049 (2002 - \$78,811).



# SYNERGEX GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 3. DUE TO/FROM RELATED COMPANIES

The amount due (to) from related companies is non-interest bearing, due on demand and made up of the following:

	<u>2003</u>	<u>2002</u>
BioAdvantex Pharma Inc.	\$ 30,872	\$ (912,735)
Synergex Corporation	-	453,023
Innovative Distribution Inc.	(9,664)	13,904
The Inventus Corporation	-	137,558
Oxford Moore Corp.	68,084	(739,783)
EFI Customs Services Inc.	-	318,553
	<u>\$ 89,292</u>	<u>\$ (729,480)</u>

### 4. OBLIGATION UNDER CAPITAL LEASE

Future minimum lease payments required under the capital lease which expires in 2004 are:

Total payments due in 2004	\$ 52,932
Amount representing interest	<u>13,737</u>
	<u>\$ 39,195</u>

Interest incurred during the year was \$19,271 (2002 - \$19,252).

### 5. DUE TO A SHAREHOLDER

The amount due to a shareholder is non-interest bearing and has no specified terms of repayment. The shareholder has indicated in writing that repayment will not be required in the next twelve months and accordingly the amount has been classified as long term.

### 6. STATED CAPITAL

Stated capital is made up of the following:

	<u>2003</u>	<u>2002</u>
Capital Stock		
Authorized		
Unlimited number of common shares		
Issued		
200 common shares (2002 - 100)	\$ 200	\$ 100

100 common shares were issued during the year in exchange for 100 common shares representing 100% of the issued and outstanding common shares of Shipitnow.com Corp.



# SYNERGEX GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

### 7. COMMITMENT

The minimum rentals, exclusive of occupancy and escalation charges, payable under the lease for the company's premises are as follows:

2004	\$ 559,527
2005	596,896
2006	596,896
2007	198,964

There are no lease obligations after 2007.

### 8. INCOME TAXES

- (a) The provision for income taxes consists of the following:

	<u>2003</u>	<u>2002</u>
Current income taxes	\$ 479,361	\$ 23,010
Future income taxes	<u>531,000</u>	-
	<u>\$ 1,010,361</u>	<u>\$ 23,010</u>

- (b) The provision for income taxes differs from the expense that would be obtained by applying the combined federal and provincial statutory rate as a result of the following:

	<u>2003</u>	<u>2002</u>	
	\$	%	
Combined federal and provincial statutory income tax amount and rate	\$ 1,173,428	37.0	\$ (82,695) 37.0
Losses of other years	(139,000)	(4.3)	-
Earnings subject to different income tax rates	(28,000)	(0.8)	(13,000) (5.8)
Valuation allowance	-	-	119,000 53.2
Other	<u>3,933</u>	<u>0.1</u>	<u>(295) (0.1)</u>
Effective income tax amount and rate	<u>\$ 1,010,361</u>	<u>32.0</u>	<u>\$ 23,010 10.3</u>



# SYNERGEX GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

- (c) The significant components of future income tax assets and liabilities as at December 31, 2003 and 2002 are:

	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Income tax loss carry-forwards	\$ 818,000	\$ 139,000
Equipment	-	(20,000)
Valuation allowance	-	(119,000)
	<u>\$ 818,000</u>	<u>\$ -</u>
<b>Liabilities:</b>		
Equipment	<u>\$ 59,000</u>	<u>\$ -</u>

The company has non-capital losses available for carry-forward for income tax purposes of approximately \$2,216,000 (2002 - \$nil). These non-capital losses expire over periods commencing in 2006 through 2008 and may be subject to restriction on their availability to shelter income.

### 9. RELATED PARTY TRANSACTIONS

Effective January 1, 2002, the company's subsidiary acquired all of the assets and assumed all of the liabilities of Synergex Corporation, a corporation related to the company by virtue of common control, in exchange for indebtedness to the vendor of \$346,788, which represented the net book value of the assets acquired.

Effective October 1, 2002 the company acquired all of the assets and assumed all of the liabilities of The Inventus Corporation, a corporation related to the company by virtue of common control, in exchange for indebtedness to the company of \$316,859, which represented the negative net book value of the assets acquired.

The assets have been reflected in the financial statements at recorded book values of the vendors.

The following summarizes the company's related party transactions for the year:

Transactions with companies under common control, measured at the exchange amount:

Management fees earned	\$ 617,500
Distribution fees earned	445,700
General and administrative costs recovered	124,275

The following amounts due from related parties are included in accounts receivable:

BioAdvantex Pharma Inc.	\$ 185
Innovative Distribution Inc.	163,883



# **SYNERGEX GROUP INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2003**

### **10. NATURE OF OPERATIONS**

The company has substantial sales to one customer and substantial purchases from two suppliers.

### **11. CREDIT FACILITIES**

A subsidiary has a US \$10.5 (2002 - \$10.5) million standby letter of credit facility and a US \$6.0 million foreign exchange contract facility secured by accounts receivable. Approximately US \$4.3 (2002 - \$5.5) million was issued on the standby letter of credit to the subsidiary's dominant supplier but no amount was called by the supplier against it. The subsidiary has foreign exchange purchase contracts outstanding of US \$4.4 million.

A subsidiary has a \$700,000 operating line of credit which is secured by a general security agreement covering all of the subsidiary's assets and guarantees of several companies under common control. No amount was outstanding under the facility at December 31, 2003.

A subsidiary has an \$8 million foreign exchange contract facility. No contracts were outstanding under the facility at December 31, 2003.

The company has guaranteed the credit facilities of Synergex Retail Services Inc. and Synergex Logistics Corp.

### **12. AMALGAMATIONS**

On September 19, 2003 a subsidiary amalgamated with BioAdvantex Pharma Inc., a company owned by the same shareholder. BioAdvantex Pharma Inc.'s assets were then sold to a newly incorporated company (BioAdvantex Pharma Inc.), under common control, for their carrying amount such that no gain or loss was recognized. The amalgamation did not result in a change in beneficial ownership of either entity, and therefore the continuity of interests accounting method has been adopted. Under the continuity of interests method, the operations of the companies are combined as if they had been one entity since inception and generally the application of this method is on a retroactive basis. However, the combination has been reported on a prospective basis because BioAdvantex Pharma Inc. did not continue its business operations as part of the subsidiary after the amalgamation. On amalgamation the subsidiary adjusted its retained earnings in the amount of \$2,306,597, which represented the net liabilities of BioAdvantex Pharma Inc., which were financed by an amount due to a shareholder.

On September 19, 2003 a subsidiary amalgamated with EFI Customs Services Inc., a company owned by the same shareholder. EFI Customs Services Inc. discontinued active operations prior to December 31, 2002. The amalgamation did not result in a change in beneficial ownership of either entity, and therefore the continuity of interests accounting method has been adopted. Under the continuity of interests method, the operations of the companies are combined as if they had been one entity since inception and generally the application of this method is on a retroactive basis. However, the combination has been reported on a prospective basis because EFI Customs Services Inc. was no longer an active corporation after 2002. On amalgamation the subsidiary adjusted its retained earnings in the amount of \$161,441, which represented the net liabilities of EFI Customs Services Inc., which were financed by an amount due to a shareholder.



# **SYNERGEX GROUP INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2003**

### **13. ACQUISITION**

On September 19, 2003 the company acquired all the issued and outstanding common shares of Shipitnow.com Corp. in a tax free transaction under Section 85(1) of the Income Tax Act (Canada). The transaction did not result in a change in beneficial ownership of Shipitnow.com Corp., and therefore the continuity of interest accounting method has been adopted. Under the continuity of interests method, the operations of the companies are combined as if they had been one entity since inception and the application of this method is on a retroactive basis.

### **14. CORRECTION OF AN ERROR**

Synergex Group Inc. owns 85% of Synergex Logistics Corp., not 100% as had been previously reported. As a result, there exists a minority shareholder whose interest had not been correctly accounted for in the consolidated financial statements of Synergex Group Inc. The correction of this error reduced the consolidated net loss and deficit reported in 2002 by \$22,649 and reduced the net income reported in 2003 by \$88,578. The financial statements for 2002 have been restated to correct this error.

### **15. RISK ASSESSMENT AND FAIR VALUES**

#### **Fair Value of Financial Instruments**

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities and due to/from related companies approximate fair value because of the short-term nature of these instruments.

#### **Credit Risk**

Financial instruments which potentially subject the company to concentrations of credit risk consist primarily of accounts receivable. The company has partially mitigated this risk as it is not required to pay the related accounts payable amount until it receives payment on approximately 45% of its accounts receivable.

#### **Foreign Exchange Risk**

Financial instruments, which expose the company to financial risk arising from foreign exchange rates and the degree of volatility of these rates, consist primarily of the U.S. dollar denominated portion of accounts payable and accrued liabilities. Substantially all of the company's accounts payable are denominated in US dollars. The company uses foreign exchange contracts from time to time to hedge against foreign exchange risk. There were \$4.4 million US dollar purchase foreign exchange contracts outstanding at December 31, 2003.

### **16. COMPARATIVE FIGURES**

Certain reclassifications of 2002 amounts have been made to facilitate comparison with the current year.



**SCHEDULE "I"**  
**PRO FORMA FINANCIAL STATEMENTS**

**CARMA FINANCIAL SERVICES CORPORATION**  
**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**  
**WITH COMPILATION REPORT**

**(Unaudited)**



## **CARMA FINANCIAL SERVICES CORPORATION**

### **INDEX TO FINANCIAL STATEMENTS**

**(Unaudited)**

1. – 2. Compilation Report
3. Pro Forma Consolidated Balance Sheet as at August 31, 2004
4. Pro Forma Consolidated Statement of Operations for the Three Months Ended August 31, 2004
5. Pro Forma Consolidated Income Statement for the Year Ended May 31, 2004
6. – 9. Notes to Pro Forma Consolidated Financial Statements





**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS OF  
CARMA FINANCIAL SERVICES CORPORATION**

**COMPIILATION REPORT**

To the Directors of Carma Financial Services Corporation

We have read the accompanying unaudited pro forma consolidated balance sheet of Carma Financial Services Corporation ("Carma" or the "Company") as at August 31, 2004 and unaudited pro forma consolidated statement of operations for the three month period then ended, and the unaudited pro forma consolidated income statement for the year ended May 31, 2004, all of which have been prepared in accordance with Canadian generally accepted accounting principles, and have performed the following procedures.

1. Compared the figures in the columns captioned "Carma" to the unaudited consolidated financial statements of Carma Financial Services Corporation as at August 31, 2004 and for the three month period then ended, and found them to be in agreement, or recalculated those figures based on information in such unaudited consolidated financial statements, and found the amounts to be arithmetically correct.
2. Compared the figures in the columns captioned "Synergex" to the unaudited consolidated financial statements of Synergex Group Inc. as at August 31, 2004 and for the eight month period then ended, and found them to be in agreement. We also compared the figures in the column captioned "Synergex" to the figures in the column captioned "three months ended August 31, 2004" in Note 6 of the unaudited pro forma consolidated financial statements and found them to be in agreement.
3. Compared the figures in the column captioned "Carma" to the audited consolidated financial statements of Carma Financial Services Corporation for the year ended May 31, 2004, and found them to be in agreement, or recalculated those figures based on information in such audited consolidated financial statements, and found the amounts to be arithmetically correct.
4. Compared the figures in the column captioned "Synergex" to the unaudited consolidated financial statements of Synergex Group Inc. for the five months ended May 31, 2004, and found them to be in agreement. We also compared the figures in the column captioned "Synergex" to the figures in the column captioned "year ended May 31, 2004" in Note 6 to the unaudited pro forma consolidated financial statements and found them to be in agreement.

1.

**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS OF  
CARMA FINANCIAL SERVICES CORPORATION**

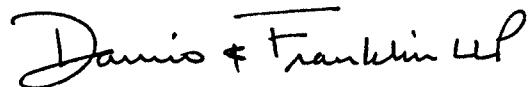
**COMPILATION REPORT  
(cont'd)**

5. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
  - a. the basis for determination of the pro forma adjustments; and
  - b. whether the pro forma consolidated financial statements comply as to form in all material respects with the Securities Act Ontario (the "Act") and the related regulations.

The officials:

- a. described to us the basis for determination of the pro forma adjustments; and
- b. stated that the pro forma consolidated financial statements comply as to form in all material respects with the Act and related regulations.
6. Read the notes to the pro forma consolidated financial statements, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
7. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Carma" and "Synergex" as at August 31, 2004 and for the three month period then ended and found the amounts in the column captioned "Pro Forma Consolidated" to be arithmetically correct.
8. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Carma" and "Synergex" for the year ended May 31, 2004 and found the amounts in the column captioned "Pro Forma Consolidated" to be arithmetically correct.

These pro forma consolidated financial statements are based on management's assumptions and adjustments, which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro forma consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.



Chartered Accountants

Toronto, Ontario  
January 13, 2005

2.



**Carma Financial Services Corporation**  
**Pro Forma Consolidated Balance Sheet**  
**As at August 31, 2004**  
**(Unaudited)**

Assets	Carma	Synergex	(Note 4)	Pro Forma Adjustments	Pro Forma Consolidated
<b>Current</b>					
Cash and short-term investments	1,820,036	2,724,344		b (115,000)	4,429,380
Accounts receivable	842,561	13,235,356			14,077,917
Inventory		226,554			226,554
Prepaid expenses	501,156	232,757			733,913
	3,163,753	16,419,011			19,582,764
<b>Long-term</b>					
Cash investment	247,500				247,500
Future income tax asset		800,000			800,000
Capital assets	712,569	1,536,903			2,249,472
Customer list	287,157				287,157
	<b>4,410,979</b>	<b>18,755,914</b>		<b>(115,000)</b>	<b>23,051,893</b>
<b>Liabilities</b>					
<b>Current</b>					
Accounts payable and accrued liabilities	1,061,873	12,024,699			13,086,572
Deferred revenue	1,768,409				1,768,409
Current portion of capital lease obligation		37,352			37,352
Current portion of lease inducements	769				769
Income taxes payable	131	293,782			293,913
	2,868,534	12,318,481			15,187,015
<b>Long-term</b>					
Deferred revenue	75,835				75,835
Capital lease obligation	87,235				87,235
Advances from Director		804,029	a (804,029)		
Future income taxes payable		59,000			59,000
	<b>3,031,604</b>	<b>13,181,510</b>		<b>(804,029)</b>	<b>15,409,085</b>
<b>Minority Interest</b>		<b>106,120</b>	a (106,120)		-
<b>Shareholders' Equity</b>					
<b>Capital Stock</b>	6,822,720	5,500,200	a 804,029		13,126,949
Stock Based Compensation	129,699				129,699
Deficit	(5,573,044)	(31,916)	a, b (8,880)		(5,613,840)
	<b>1,379,375</b>	<b>5,468,284</b>		<b>795,149</b>	<b>7,642,808</b>
	<b>4,410,979</b>	<b>18,755,914</b>		<b>(115,000)</b>	<b>23,051,893</b>



**Carma Financial Services Corporation**  
**Pro Forma Consolidated Statement of Operations**  
For the three months ended August 31, 2004  
(Uaudited)

	<u>Carma</u>	<u>Synergex</u> <u>(Note 7)</u>	<u>(Note 4)</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>Consolidated</u>
<b>Revenue</b>	<b>1,329,430</b>	<b>19,560,491</b>			<b>20,889,921</b>
<b>Cost of Sales</b>	<b><u>805,839</u></b>	<b><u>17,356,245</u></b>			<b><u>18,162,084</u></b>
<b>Gross Profit</b>	<b><u>523,591</u></b>	<b><u>2,204,246</u></b>			<b><u>2,727,837</u></b>
<b>Expenses</b>					
Sales, general and administrative	680,296	1,706,172	b	115,000	2,501,468
Interest on current debt	42	13,969			14,011
Interest on long-term debt	3,479				3,479
Amortization of capital assets	59,250	94,923			154,173
Lease termination costs	56,990				56,990
Employee termination costs	38,540				38,540
Loss on sale of capital assets	<u>308,601</u>				<u>308,601</u>
	<b><u>1,147,198</u></b>	<b><u>1,815,064</u></b>		<b><u>115,000</u></b>	<b><u>3,077,262</u></b>
<b>Income (Loss) before Income Taxes</b>	<b><u>(623,607)</u></b>	<b><u>389,182</u></b>		<b><u>(115,000)</u></b>	<b><u>(349,425)</u></b>
<b>Income Taxes</b>		<b><u>140,106</u></b>			<b><u>140,106</u></b>
<b>Income before Minority Interest</b>	<b><u>(623,607)</u></b>	<b><u>249,076</u></b>		<b><u>(115,000)</u></b>	<b><u>(489,531)</u></b>
<b>Minority Interest</b>		<b><u>(3,326)</u></b>	a	<b><u>3,326</u></b>	<b><u>-</u></b>
<b>Net Income (Loss) for the Period</b>	<b><u>(623,607)</u></b>	<b><u>245,750</u></b>		<b><u>(111,674)</u></b>	<b><u>(489,531)</u></b>
<b>Earning Per Share - Basic</b>					<b><u>(0.00)</u></b>
<b>Earning Per Share - Fully Diluted</b>					<b><u>(0.00)</u></b>



**Carma Financial Services Corporation**  
**Pro Forma Consolidated Income Statement**  
**For the year ended May 31, 2004**  
**(Unaudited)**

	<b>Carma</b>	<b>Synergex (Note 7)</b>	<b>(Note 4)</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma Consolidated</b>
<b>Revenue</b>	<b>5,788,013</b>	<b>89,760,686</b>			<b>95,548,699</b>
<b>Cost of Sales</b>	<b>3,214,679</b>	<b>80,174,186</b>			<b>83,388,865</b>
<b>Gross Profit</b>	<b>2,573,334</b>	<b>9,586,500</b>			<b>12,159,834</b>
<b>Expenses</b>					
Sales, general and administrative	2,259,566	6,711,039	b	115,000	9,085,605
Interest on current debt	1,443	96,402			97,845
Interest on long-term debt	167,123				167,123
Financing and investor relations	(2,379)				(2,379)
Amortization of capital assets	300,722	391,760			692,482
Termination costs	225,675				225,675
(Gain) loss on sale of capital assets	(107)	3,862			3,755
	<b>2,952,043</b>	<b>7,203,063</b>		<b>115,000</b>	<b>10,270,106</b>
<b>Income (Loss) before the Following Item:</b>	<b>(378,709)</b>	<b>2,383,437</b>		<b>(115,000)</b>	<b>1,889,728</b>
<b>Gain on Sale of Divisional Assets</b>	<b>(7,052)</b>				<b>(7,052)</b>
<b>Income (Loss) before Income Taxes</b>	<b>(371,657)</b>	<b>2,383,437</b>		<b>(115,000)</b>	<b>1,896,780</b>
<b>Income Taxes</b>		<b>727,586</b>			<b>727,586</b>
<b>Income before Minority Interest</b>	<b>(371,657)</b>	<b>1,655,851</b>		<b>(115,000)</b>	<b>1,169,194</b>
<b>Minority Interest</b>		<b>(71,976)</b>	a	<b>71,976</b>	<b>-</b>
<b>Net Income (Loss) for the Year</b>	<b>(371,657)</b>	<b>1,583,875</b>		<b>(43,024)</b>	<b>1,169,194</b>
<b>Earning Per Share - Basic</b>					<b>0.01</b>
<b>Earning Per Share - Fully Diluted</b>					<b>0.01</b>



**CARMA FINANCIAL SERVICES CORPORATION**  
**Notes to Pro Forma Consolidated Financial Statements**  
**(Unaudited)**

**Note 1      Description of Offer to Purchase Synergex Group Inc.**

Carma Financial Services Corporation (“Carma”, the “Company”, “us”, “we”) announced on October 25, 2004 a proposed related party transaction with Synergex Group Inc., including Synergex Logistics Corp. (“Synergex”). Our offer is to exchange 53,333,333 Carma common shares and a number of preference shares, dependent on Synergex working capital, for all issued and outstanding shares of Synergex, including the minority shareholder’s 15% interest in Synergex Logistics Corp. (“Synergex Shares”).

Assuming all Synergex shares are exchanged in this offer, immediately following the exchange, approximately 25% of the shares would be held by current unrelated Carma shareholders and approximately 75% of the shares would be held by the current Carma controlling shareholder and the current Synergex controlling shareholder, calculated on a fully diluted basis. The transaction is a related party transaction because the controlling shareholder of Carma also controls Synergex. In terms of value, there is no substantive change in value of the current Carma controlling shareholder and the current Synergex controlling shareholder both before and after the transaction. In accordance with these assumptions, the transaction has been accounted for as a continuity of interests in accordance with EIC 89 “Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries”. Under this basis of accounting neither corporation’s assets have been restated in the pro forma consolidated financial statements presented herein.



**CARMA FINANCIAL SERVICES CORPORATION**  
**Notes to Pro Forma Consolidated Financial Statements**  
**(Unaudited)**

**Note 2      Basis of Presentation**

Included are the unaudited pro forma consolidated statement of operations for the three months ended August 31, 2004 and the unaudited pro forma consolidated income statement for the year ended May 31, 2004 and the unaudited pro forma consolidated balance sheet of Carma as at August 31, 2004. The unaudited pro forma consolidated balance sheet as at August 31, 2004 gives effect to the business transaction as at that date. The unaudited pro forma consolidated income statement for the year ended May 31, 2004 gives effect to the business transaction as at June 1, 2003. The unaudited pro forma consolidated statement of operations for the three months ended August 31, 2004 gives effect to the business transaction as at June 1, 2004. These statements have been prepared by the management of Carma to assist you in your analysis of the financial effects of the proposed combination of Carma and Synergex.

The Carma information has been derived from our historical unaudited financial statements as of and for the three months ended August 31, 2004 and from our historical audited financial statements for the year ended May 31, 2004. Our historical data was prepared using Canadian generally accepted accounting principles.

Synergex's information has been compiled from their audited financial statements for the year ended December 31, 2003 and unaudited financial statements for May 31, 2003, May 31, 2004 and August 31, 2004. Synergex historical data was prepared using Canadian generally accepted accounting principles.

It is management's opinion that these unaudited pro forma consolidated financial statements include all adjustments necessary for the fair presentation, in all material respects, of the transaction described above in accordance with Canadian generally accepted accounting principles applied on a basis consistent with Carma's accounting policies.

The unaudited pro forma consolidated financial statements are not intended to reflect the results of operations or the financial position of Carma which would have actually resulted had the proposed transaction been effected on the date indicated. Further, the pro forma financial information is not necessarily indicative of the results of operations that may be obtained in the future. The unaudited pro forma consolidated financial statements should be read in conjunction with the historical financial statements and notes thereto of Carma and Synergex, described above.



**CARMA FINANCIAL SERVICES CORPORATION**  
**Notes to Pro Forma Consolidated Financial Statements**  
**(Unaudited)**

**Note 3      Significant Accounting Policies**

These unaudited pro forma consolidated financial statements have been compiled using the significant accounting policies as set out in the audited financial statements of the Company and Synergex contained elsewhere in this information circular.

**Note 4      Pro Forma Assumptions and Adjustments**

The unaudited pro forma consolidated financial statements reflect the following assumptions and adjustments:

- (a) All of the issued and outstanding shares of Synergex, including the minority shareholder's interest in Synergex Logistics Corp., and the shareholders' advances, are exchanged for 53,333,333 common, and 4,100,530 preference shares of Carma. As the transaction will not result in a change of control of either entity, the transaction has been accounted for, in the accompanying unaudited pro forma consolidated financial statements, as a continuity of interests (see Note 1). The amounts assigned to the assets, liabilities, revenues and expenses are based on their respective historical cost amounts.
- (b) Additional transaction costs are incurred to complete the proposed transaction.

**Note 5      Capital Stock**

	<u>Number</u>	<u>Amount</u>
Issued common shares:		
Balance, May 31, 2004	54,749,852	\$ 6,321,902
Employee stock option plan	80,600	8,060
Exercise of warrants, May 30, 2003 private placement	3,100,000	310,000
Stock based compensation	nil	36,620
Transfer of warrant value	nil	146,138
For Synergex, excluding working capital	<u>53,333,333</u>	<u>2,203,699</u>
Balance, August 31, 2004	<u>111,263,785</u>	<u>9,026,419</u>
Issued preference shares:		
Balance, May 31, 2004	nil	\$ nil
For Synergex working capital	<u>4,100,530</u>	<u>4,100,530</u>
Balance, August 31, 2004	<u>4,100,530</u>	<u>4,100,530</u>
<b>Capital Stock, August 31, 2004</b>		<b><u>\$13,126,949</u></b>



**CARMA FINANCIAL SERVICES CORPORATION**  
**Notes to Pro Forma Consolidated Financial Statements**  
**(Unaudited)**

**Note 6. Pro Forma Consolidated Statement of Operations Computation for Synergex**

The unaudited pro forma consolidated statement of operations for the three months ended August 31, 2004 and the unaudited pro forma consolidated income statement for the year ended May 31, 2004 for Synergex has been computed using the audited consolidated financial statements of Synergex for the year ended December 31, 2003 and the unaudited consolidated financial statements of Synergex for the five months ended May 31, 2004 and 2003 and the eight months ended August 31, 2004 as follows:

	(1) Year ended <u>December 31, 2003</u>	(2) Five months ended <u>May 31, 2004</u>	(3) Five months ended <u>May 31, 2003</u>	(4) (1)+(2)-(3) Year ended <u>May 31, 2004</u>	(5) Eight months ended <u>August 31, 2004</u>	(6) (5)-(2) Three months ended <u>August 31, 2004</u>
Revenue	97,194,437	25,448,385	32,882,136	89,760,686	45,008,876	19,560,491
Cost of Sales	<u>87,277,587</u>	<u>22,273,198</u>	<u>29,376,599</u>	<u>80,174,186</u>	<u>39,629,443</u>	<u>17,356,245</u>
Gross Profit	<u>9,916,850</u>	<u>3,175,187</u>	<u>3,505,537</u>	<u>9,586,500</u>	<u>5,379,433</u>	<u>2,204,246</u>
Expenses:						
Sales, general and administrative	6,190,254	2,500,923	1,980,138	6,711,039	4,207,095	1,706,172
Interest on current debt	193,230	34,170	130,998	96,402	48,139	13,969
Amortization of capital assets	360,580	163,216	132,036	391,760	258,139	94,923
Loss on sale of capital assets	<u>3,862</u>	<u>-</u>	<u>-</u>	<u>3,862</u>	<u>-</u>	<u>-</u>
	<u>6,747,926</u>	<u>2,698,309</u>	<u>2,243,172</u>	<u>7,203,063</u>	<u>4,513,373</u>	<u>1,815,064</u>
Net Income Before Income Taxes	<u>3,168,924</u>	<u>476,878</u>	<u>1,262,365</u>	<u>2,383,437</u>	<u>866,060</u>	<u>389,182</u>
Income taxes	<u>1,010,361</u>	<u>171,676</u>	<u>454,451</u>	<u>727,586</u>	<u>311,782</u>	<u>140,106</u>
Income before Minority Interest	<u>2,158,563</u>	<u>305,202</u>	<u>807,914</u>	<u>1,655,851</u>	<u>554,278</u>	<u>249,076</u>
Minority Interest	<u>(88,578)</u>	<u>(36,850)</u>	<u>(53,452)</u>	<u>(71,976)</u>	<u>(40,176)</u>	<u>(3,326)</u>
Net Income	<u>2,069,985</u>	<u>268,352</u>	<u>754,462</u>	<u>1,583,875</u>	<u>514,102</u>	<u>245,750</u>



**SCHEDULE “J”**

**MANAGEMENT’S DISCUSSION and ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE CORPORATION**

**INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED  
AUGUST 31, 2004**

**Consolidated Review**

Consolidated revenue for the three months ended August 31, 2004, the first quarter of fiscal 2005, relative to the same period a year ago shows an increase in overall revenue due to growing revenue from our Credit Reporting business.

Our net loss increased over the loss in the prior year quarter due to costs related to the relocation of our headquarters, lease termination costs for our prior headquarters, expensing the potential future liability for the unused office space formerly occupied by the small collection agency acquired in the quarter, employee termination expenses, and costs incurred in regards to our announced intention to acquire Synergex Group Inc. The relocation and lease termination expenses, combined with the employee termination costs were undertaken under our expense rationalization program to further reduce future operating expenses and improve profitability. This substantially completes the rationalization of expenses we commenced one year ago.

During the quarter we acquired a small Toronto based consumer collection agency to further grow our Consumer Collection division.

We expensed \$490,513 in costs in the first quarter related to the October relocation to our new Mississauga, Ontario headquarters, the lease termination expenses of our former offices in Toronto, the potential future liability for the unused office space formerly occupied by the collection agency acquired in the first quarter, employee termination costs and the Synergex acquisition costs.

**Results of Operations – three months ended August 31, 2004 and 2003**

Consolidated revenue for our first quarter of fiscal 2005 were \$1,329,430, an improvement of \$7,154 or 0.6% from \$1,322,276 for the prior year quarter. Credit reporting and evaluation revenue for our first quarter of fiscal 2005 were \$819,160, an improvement of \$62,416 or 8.3% from \$756,744 for the prior year quarter. This growth reflects the continued, healthy demand for our real-time Credit reporting products in the marketplace. Collection revenue for our first quarter of fiscal 2005 was \$510,270, a decrease of \$55,262 or 9.8% from \$565,532 for the prior year quarter. The stable, relatively flat condition of the Canadian economy continues to adversely affect our commercial collection business, in that the number of claims placed for collection remains low. More claims are placed during periods of economic growth or decline when growing receivable portfolios and defaults expand beyond the ability of clients to manage. There is a core volume of claims that occur in all economic periods.

Consolidated Gross Margin for our first quarter of fiscal 2005 was \$523,591 (39.4% of Revenue), a decrease of \$26,553 from \$550,144 (41.6% of Revenue) for the prior year quarter. Credit reporting and evaluation Gross Margin for our first quarter was \$419,520 (51.2% of Revenue), an improvement of \$68,999 from \$350,521 (46.3% of Revenue) for the prior year quarter. This improvement is a reflection of higher revenues and increased use by clients of our online products, which helps in the containment of data acquisition costs. Collection Gross Margin for our first quarter of \$104,071 (20.4% of Revenue), decreased by \$95,552 from \$199,623 (35.3% of Revenue) for the prior year quarter. The decrease is attributable to the time required to implement cost reductions related to the slow down of commercial collection activity, combined with the slightly lower margin generated from consumer collections. Consumer collections generate a lower gross margin than commercial collections but represent a significantly larger market place and opportunity for long-term growth.

EBITDA for the quarter ended August 31, 2004 was (\$252,235), a decrease of \$17,535 or 7.5% from (\$234,700) for the previous year quarter. Fiscal 2005's EBITDA is after expensing \$181,912 of costs relating to the relocation of our office, lease and employee termination costs, acquisition costs relating to Synergex Group Inc. and recording our potential liability for the unused office space formerly occupied by the collection agency acquired in June 2004. Fiscal 2004's EBITDA is after expensing \$175,434 in termination costs.

Interest expense on current and long-term debt for the quarter was \$42 and \$3,479 respectively (a total of \$3,521), versus (\$920) and \$34,933 in the prior year quarter (a total of \$34,013). The decrease is a result of the Company's having eliminated its Bank and Debenture debt during fiscal 2004. The only interest bearing debt that remains on the Company's books relates to our Capital leases.

Amortization of capital assets for the quarter was \$59,250, a decrease of \$50,392 from \$109,642 for the prior year quarter. This decrease is mainly the result of having accelerated the amortization of our website and proprietary French language credit reporting system to fully amortize these assets during the first quarter of fiscal 2004.

Lease termination costs were incurred as a result of our announced relocation to Mississauga in October. This cost consists of a cash payment to our former landlord, partially offset by the removal of liabilities for lease inducement costs and other liabilities on our Balance Sheet.

Employee termination costs during the quarter were \$38,540, a decrease of \$136,894 from \$175,434 from the prior year quarter. The current year's costs are a reflection of the continuing expense rationalization efforts designed to bring the company to profitability.

The Loss on disposal of capital assets of \$308,601 is due to the abandonment of the Leasehold Improvements at our former Toronto office.

Net loss for the quarter was \$623,607, an increase of \$252,304 from \$371,303 for the previous year. This increase is mainly the result of the first quarter's non-recurring costs incurred in relation to the announced relocation of our office, as well as the Synergex acquisition costs and the recording of our potential liability for the unused office space formerly occupied by the small collection agency acquired in the first quarter (first quarter fiscal 2004 – nil). The total cost of these items in the quarter was \$451,973. In addition we incurred employee termination costs of \$38,540 (first quarter fiscal 2004 - \$175,434).

### **Summary of Quarterly Results (unaudited)**

<b>Fiscal 2005</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Revenues	\$1,329,430			
Operating Earnings/(Loss)	(219,476)			
Lease termination cost – net	56,990			
Employee termination costs	38,540			
Loss on disposal of capital assets	308,601			
Net Income/(Loss)	(623,607)			
Net Earnings per share				
Basic	(0.015)			
<b>Fiscal 2004</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Revenues	\$1,322,276	\$1,509,573	\$1,459,928	\$1,496,236
Operating Earnings/(Loss)	(202,921)	30,698	12,046	(7,036)
Employee termination costs	175,434	-	-	50,241
(Gain) on sale of capital assets	-	-	-	(107)
(Gain) on sale of divisional assets	(7,052)	-	-	-
Net Income/(Loss)	(371,303)	30,698	12,046	(43,098)
Net Earnings per share				
Basic	(0.018)	0.00	0.00	(0.00)

<b>Fiscal 2003</b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>
Revenues	\$1,568,726	\$1,483,131	\$1,473,169
Operating Earnings/(Loss)	(34,949)	(499,633)	(871,153)
Employee termination costs	-	-	-
(Gain)/Loss on sale of capital assets	(58,892)	(172,622)	82,254
(Gain)/Loss on sale of divisional assets	(14,043)	80,850	29,808
Net Income/(Loss)	37,986	(407,861)	(983,215)
Net Earnings per share			
Basic	0.00	(0.03)	(0.07)
<b>Other Data</b>			
EBITDA – Fiscal 2005	(252,235)		
EBITDA – Fiscal 2004	(234,700)	130,984	108,758
EBITDA – Fiscal 2003		227,088	5,384
			(929,499)

The fully-diluted loss per share has not been calculated as the effect on the loss per share would be anti-dilutive.

## **Seasonality and Quarterly Fluctuations**

Revenues for Third party debt collection are driven by the volume of claims assigned to us to collect. We would like to offer some comments on seasonal factors that generally impact the business. The volume of claims is negatively impacted by vacations taken by clients, with the result that the first quarter, June through August, and in the third quarter, December and January, are historically times of low placement. High periods of vacations and holidays impact negatively upon our ability to contact and negotiate payments, with the result that the same time frames (June through August, December, and January) are again negatively affected.

Revenues generated from Credit reporting and evaluation services are predominantly generated from contracts, with the revenue amortized over the life of the contract. While revenue from ongoing contracts in this segment of our business is not affected by seasonality, our ability to sell to new clients and to upgrade existing clients is affected. We have a significant market share of construction related credit reporting services where new contracts are not traditionally purchased during the winter construction slow period. In addition, we are affected by the vacation and holiday schedules of our clients and potential clients.

The greater part of our costs is employee related and are therefore relatively fixed in nature. We do not have the ability to staff our operations to reflect these periods of reduced revenues as we would face the prospect of permanently losing staff and facing training and learning curve issues.

It should also be noted that certain costs in our Credit reporting and evaluation segment are driven by the requests for credit report and information. As our revenue is contract based, these costs can fluctuate independently of revenues.

## **Liquidity and Capital Resources**

Cash used in operating activities for the quarter was \$281,667, a reduction of \$192,646 from \$474,313 for the prior year quarter. This improvement is mainly the result of improved management of our accounts receivable over the past year, resulting in improved accounts receivable levels.

Cash used in investing activities for the quarter was \$801,827, an increase of \$686,501 from \$115,326 for the previous year. This change is due to the company's investment in a short-term GIC and the purchase of a small collection agency in the quarter.

Cash provided by financing activities for the quarter was \$308,484, an improvement of \$352,252 from (\$43,768) for the previous year. This is mainly due to receiving payment for shares issued due to the exercise of warrants, as well as the exercising of stock options that were issued to employees. As of August 31, all warrants that were issued as a result of private placements have been exercised.

Over the past year, all long-term debt with the exception of Capital lease obligations has been paid in full. The Company is now relatively free from all interest bearing debt and currently has \$905,349 invested in short term GICs.

During the quarter, capital expenditures were \$6,391. The Company has one large capital project that is expected to be completed in the third quarter of fiscal 2005, which is the replacement of our existing collection system. The final payments of this purchase will be covered by cash flows from operating activities.

### **Off Balance Sheet Transactions**

The Company does not have any off balance sheet arrangements.

### **Transactions with Related Parties**

During the quarter, we invoiced an entity controlled by an officer of the company for credit reports. The value of these items was \$295 and priced at market rates.

### **Proposed Transactions**

On October 25 the Company announced that it has entered into an agreement to acquire the shares of Synergex Group Inc. at a purchase price of \$14,399,999 plus the amount of Synergex' closing date working capital. The purchase price to be satisfied by Carma's issuance of 53,333,333 common shares and such number of preferred shares as will have an aggregate value equal to Synergex' working capital as at closing. This transaction has been accounted for as a continuity of interests in accordance with EIC 89 "Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries". Synergex is owned by David Aiello, who is a Senior Officer, Director and a significant shareholder of Carma. Completion of this transaction is subject to a number of conditions, including but not limited to, acceptance by the TSX Venture Exchange and disinterested shareholder approval at a meeting to be called to consider this transaction.

The Board of Directors has approved CARMA entering into a 5-year occupancy agreement for its new headquarters in Mississauga, Ontario with Synergex Group Inc. (Synergex). Synergex is owned by its CEO, David Aiello, who is also CARMA's CEO, President and controlling shareholder. Synergex is an Ontario-based corporation and a leading provider of comprehensive logistics services, technology management services, administrative services, and digital art and linguistic translation services throughout Canada.

Synergex' headquarters is located at 6175 Kenway Drive in Mississauga. Under the terms of this transaction, CARMA will occupy office premises at 6225 Kenway Drive, neighbouring the headquarters of Synergex. CARMA will occupy approximately 14,000 square feet of office space in the new premises as a sub-tenant of Synergex, and will enter into a sub-tenant occupancy agreement with Synergex on terms identical to the lease terms between Synergex and the arms-length landlord such that there is no financial benefit earned by Synergex. This occupancy agreement provides for a term of five years. The rental rate was determined by CARMA's Board of Directors to be reflective of market rates.

### **Accounting Policies**

The Company's unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and follow the same accounting policies and methods of application as the audited annual financial statements at May 31, 2004. The Company has retroactively adopted the fair value method to account for its stock based compensation for employees. An adjustment to the opening deficit balance to reflect the cumulative effect of the change on prior periods has been made.

### **Forward Looking Statements**

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying notes. Some statements contained in the Management's Discussion and Analysis of financial condition and results of operations contain forward-looking statements relating to the Company's operations, which are based on our operations, forecasts and projections. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, and the Company's actual results may differ materially from those anticipated in these forward-looking statements.

We have relocated to new headquarters in Mississauga. This move will reduce our monthly rent considerably, with a corresponding improvement to our cash flows. This move resulted in the company incurring a cash payment of \$195,687 to terminate the existing lease and additional non-cash adjustments to the Balance Sheet to record the loss resulting from the disposition of the existing leasehold improvements, partially offset by removing liabilities for lease inducement costs and other liabilities, which in aggregate equal \$169,904. These costs have, as previously stated, been reflected in our first quarter financials.

Our expense rationalization program has been substantially completed with employee termination costs of \$38,540. A small amount of termination expense will be incurred in the second quarter ending November 30, 2004. The effect of these rationalization efforts will be to reduce monthly operating expenses for the second quarter.

Our new collection system should be in use during the third quarter of fiscal 2005. This windows based system will allow us to provide our clients online access to their accounts,

enabling them to have immediate real-time knowledge of the status of the collection activity and to add any information that would aid in the collection process.

We believe that we will be able to build upon our success to date in growing the consumer sector of our collection business, through a coordinated effort designed to approach and attract medium to large volume clients.

During the third and fourth quarter the Company intends to launch additional product categories that will support and enhance both Collection and Credit reporting services.

### **Additional Information**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **ANNUAL FINANCIAL STATEMENTS**

*The following management's discussion and analysis provides information that the Corporation believes is important to an assessment and understanding of the Corporation's consolidated results of operations and financial condition. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. Some statements contained in the management's discussion and analysis of financial condition and results of operations contain forward-looking statements relating to the Corporation's operations, which are based on our operations, forecasts and projections. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, and the Corporation's actual results may differ materially from those anticipated in these forward-looking statements.*

### **FINANCIAL YEAR ENDED MAY 31, 2004**

#### **Consolidated Revenue**

Consolidated revenue for the year ended May 31, 2004 was \$5,788,013, a decrease of \$429,282 or 6.9% from \$6,217,295 for the previous year. Credit reporting and evaluation revenue for the year ended May 31 2004 was \$3,203,736, an improvement of \$175,990 or 5.8% from \$3,027,746 for the previous year. This growth reflects the strong demand for our Credit reporting products in the marketplace. Collection revenue for the year ended May 31, 2004 was \$2,584,277, a decrease of \$605,272 or 19.0% from \$3,189,549 for the previous year. This decrease is mainly the result of the completion of a short-term collection program in January 2003 that generated revenue of \$451,944 during fiscal 2003. In addition, we have experienced a general reduction in the number of commercial claims placed with us for collection, due to the continued strong condition of the Canadian economy. To counter this decrease in commercial placements, we are pursuing consumer collection accounts and have successfully grown this area and added new national accounts to total revenues of \$422,383 during fiscal 2004.

During the fourth quarter, our revenue was \$1,496,236, an improvement of \$23,067 or 1.6% from \$1,473,169 for the previous year. Credit reporting and evaluation revenue for the fourth quarter was \$843,035, an improvement of \$260,189 or 44.6% from \$582,846 for the fourth quarter of the previous year. Collection revenue for the fourth quarter was \$653,201, a decrease of \$237,122 or 26.6% from \$890,323 during the fourth quarter of the previous year. This, again, is a reflection of the stronger economy resulting in fewer commercial collection claims being forwarded to us.

#### **Gross Margin**

Our Consolidated Gross Margin of \$2,573,334 or 44.5% for the year ended May 31, 2004 decreased by \$247,563 from \$2,820,897 or 45.4% for the previous year. Credit reporting and evaluation Gross Margin of \$1,603,718 or 50.1% for the year ended May 31, 2004 improved by \$296,518 from \$1,307,200 or 43.2% for the previous year. This improvement is a reflection of higher revenues, increased online product volume as well as continued cost controls. Collection Gross Margin of \$969,616 or 37.5% for the year ended May 31, 2004 decreased by \$544,081

from \$1,513,697 or 47.5% for Complete Credit & Receivable Management Solutions the previous year. The decrease is directly attributable to the reduction in the number of commercial claims being forwarded to us. In addition, the consumer collection business generates a lower margin, in that it is more labour intensive than commercial collections due to the large volume of smaller dollar sized claims that are placed, which necessitates higher staffing. Our reduced staffing for commercial collections was offset by the requirement for staffing to handle our consumer business.

Consolidated Gross Margin for the fourth quarter of fiscal 2004 was \$650,321 or 43.4%, an improvement of \$195,037 from the previous year's \$455,284 or 30.9%. Credit reporting and evaluation Gross Margin of \$451,838 for the fourth quarter, improved by \$415,837 from the previous year's \$36,001. Collection Gross Margin of \$198,483 for the fourth quarter, decreased by \$220,800 from the previous year's \$419,283. These differences are reflective of adjustments of costs between these segments that were made in the fourth quarter of fiscal 2003.

### **Operating Earnings**

The Corporation defines Operating Earnings as earnings before interest expense, financing and investor relations, tax, amortization and unusual or non-recurring items.

In fiscal 2004, operating earnings were \$88,093 or 1.5%, an improvement of \$145,149 from (\$57,056) or (0.9%) for fiscal 2003. This improvement is a direct reflection of the Corporation's commitment to cost reduction and control in spite of revenue reductions. It should also be noted that the Operating Earnings in fiscal 2004 are after incurring Termination costs of \$225,675.

For the fourth quarter of fiscal 2004, Operating Earnings were \$(10,951) or (0.7%), an improvement of \$470,572 from \$(481,523) or (32.7%) from the fourth quarter of fiscal 2003. Again, it should be noted that the fourth quarter results are after incurring Termination costs of \$39,290.

### **Amortization of capital assets**

Amortization of capital assets in fiscal 2004 was \$300,722, a reduction of \$226,575 from \$527,297 in fiscal 2003. In fiscal 2004, we elected to accelerate the amortization of our website and proprietary French language credit reporting system to fully amortize these assets (\$33,218). Fiscal 2003's amortization was high due to having accelerated the amortization of a capital sale and leaseback contract that was bought out ahead of schedule during the third quarter (\$298,263).

### **Gain on sale of assets**

The gain reported in fiscal 2003 represents the gain recognized on the early buy out of a capital sale and leaseback contract during the third quarter of fiscal 2003. [www.carmafinancial.com](http://www.carmafinancial.com)

## **Liquidity & Capital Resources**

The Corporation's primary sources of cash have historically been cash flow from operations, bank borrowings and equity offerings. Cash has been used for purchase of equipment and general working capital.

Net loss for the year ended May 31 2004 was \$(371,657), an improvement of \$928,642 from \$(1,300,299) in fiscal 2003. This improvement is mainly the result of the Corporation's cost reduction and control strategy that was implemented during the year, along with savings generated by the restructuring of senior management.

Cash flows from business operations for the year ended May 31 2004 were (\$600,702), a decrease of \$271,592 from (\$329,110) in fiscal 2003. This decrease is mainly the result of increased accounts receivable and reduced accounts payable at the end of fiscal 2004 combined with the one-time booking in fiscal 2003 of the deferred gain on sale of capital assets, offset by reduced amortization of capital assets. The increased receivables are mainly the result of strong sales of our credit reporting contracts during April and May, which generated a net increase to receivables of \$235,500 during this period. The reduction in accounts payable is mainly the result of the cost controls instituted by the Corporation during the year.

Cash flows from investing activities for the year ended May 31 2004 were (\$689,660), a decrease of \$(510,788) from \$(178,872) for fiscal 2003. This is mainly due to the Corporation's investment in a bank term deposit and having to increase its deposit with its bonding company for licensing purposes.

Cash provided by financing activities for the year ended May 31 2004 were \$1,176,643, a decrease of \$938,922 from \$2,115,565 for fiscal 2003. This is mainly due to the repayment of bank indebtedness and the early repayment of our debenture. The funds obtained through the issuance of capital stock and warrants represent the exercise of warrants obtained through our private placements in fiscal 2003 as well as stock options that were issued to various employees. At May 31 2004, 3,100,000 warrants worth \$310,000 were outstanding and were subsequently exercised in August 2004.

The Corporation has eliminated a sizable amount of both short and long term debt in fiscal 2004 (bank debt, debenture, and capital lease obligations), thus improving our future cash flow position and resulting in a positive working capital position.

The Corporation expects that the positive working capital position will be maintained in fiscal 2005 and beyond. It is also our expectation that in fiscal 2005 we will be able to generate a positive cash flow from operations.

## **Consolidated Financial Position**

Total consolidated assets increased to \$4,853,776 at May 31, 2004 from \$4,270,414 at May 31, 2003. This is mainly due to increases in Accounts Receivable, Bank Term Deposit and Investments, offset by a reduction in Capital Assets.

The reduction in Capital Assets is a combination of no capital spending on our proprietary software and amortization during the year. Note that the Corporation has announced that it is purchasing a new collection system to replace its existing system that has been in use since 1995. It is expected that this new system will be in place and operational during the third quarter of fiscal 2005.

Total consolidated liabilities decreased to \$3,182,766 at May 31, 2004 from \$4,410,006 at May 31, 2003. This decrease is primarily due to the elimination of Bank Indebtedness and Debentures, as well as reductions in Accounts Payable and Accrued Liabilities and Capital Lease Obligations.

#### **Deferred Revenue**

Deferred Revenue results from the sale of contracts with a term of 12 months or longer, with payment being within arranged terms. These contracts are defined for a specific usage over a specified time period i.e., the contract expires either when the term ends or the client has exhausted its allotment of services, whichever comes first. Generally accepted accounting principles require that the unearned portion of the contract be recorded as a deferred revenue liability. The Corporation's current accounting policy is to amortize this revenue over the life of the contract regardless of the client's usage. The nature of these contracts is such that any under utilization by the client is not refundable beyond a 15% carryover discount for contract renewal. Note that the current portion of Deferred Revenue is a reflection of guaranteed revenue for the Corporation that will be recognized within the year.

Deferred Revenue at May 31, 2004 was \$1,921,441, which compares favourably with the balance at May 31, 2003 of \$1,849,113. Please note the following for current and long term deferred revenue:

	<b>2004</b>	<b>2003</b>
Deferred Revenue - start of year	\$1,849,113	\$1,932,130
Additions during the year	3,502,813	3,146,235
Recognized to revenue during the year	<u>(3,430,485)</u>	<u>(3,229,252)</u>
Deferred Revenue - end of year	<u><b>\$1,921,441</b></u>	<u><b>\$1,849,113</b></u>

#### **New Accounting Pronouncements Stock Based Compensation.**

Effective June 1, 2004, the Corporation will be required to retroactively adopt the fair value method to account for its stock based compensation for employees. An adjustment will be made to the opening deficit balance in the first quarter ended August 31, 2004 to reflect the cumulative effect of the change on prior periods.

## **Outlook**

Although our financial statements have improved dramatically from last year, on both the Operations and Balance Sheet side, we realize that there is more work to be done.

Although the past fiscal year was one of reorganization and cost constraint, we did make progress on product enhancement and development. We developed an industry leading Egroup online service that has been launched for beta testing in September 2004. This product places us on the leading edge of credit management. Credit Window, our existing online credit product was released late in fiscal 2003 and is now available to all clients. Acceptance of this product has grown substantially over the past year, with approximately 25% of our clients now using this product. The ability to provide online access to our database allows us to contain or reduce our data acquisition costs.

As of October we will have relocated to new headquarters in Mississauga. This move will enable us to reduce our monthly rent considerably, with a corresponding improvement to our cash flows. The cost of this relocation will include a cash payment of \$195,687 to terminate the existing lease, as well as additional non-cash adjustments to the Balance Sheet to fully amortize existing leasehold improvement, partially offset by removing the liabilities for lease inducements costs and other liabilities totalling \$169,904.

Our new collection system should be in use during the third quarter of fiscal 2005. This windows based system will allow us to provide our clients online access to their accounts, enabling them to have immediate knowledge of the status of the collection activity and to add any information that would aid in the collection process.

As previously stated, the Corporation incurred termination costs of \$225,675 in fiscal 2004.

This will further contribute to our expense rationalization in fiscal 2005.

We believe that we will be able to build upon our success to date in growing the consumer sector of our collection business, through a coordinated effort designed to approach and attract medium to large companies.

The Corporation intends to launch additional product categories within the year that will support and enhance both our Collection and Credit Reporting services.

## **FINANCIAL YEAR ENDED MAY 31, 2003**

### **Consolidated revenues**

Consolidated revenues for the year ended May 31, 2003 were \$6,217,295, a decrease of \$3,262,587 or 34.4% from \$9,479,882 for the previous year. This decrease in revenue was mostly the result of a \$2,698,229 reduction due to the sale of our retail collection division in May of 2002. Credit Reporting Revenue for Lumbermen's Credit Bureau/Mercantile Credit Bureau (LCB/MCB) at \$3,027,746 was almost unchanged from \$3,062,982 for the previous year. Ongoing Commercial Collection Revenue of \$3,189,549 for Canada Bonded Attorney (CBA) decreased \$529,122 or 14.2% from \$3,718,671 for the previous year. During Q4, 2003, consolidated revenues decreased \$9,962 or 0.7% over Q3, 2003.

### **Gross margin**

Total gross margin of \$2,820,897 or 45.4% of revenue decreased \$1,786,639 from \$4,607,536 or 48.6% of revenue for the previous year. This reduction is attributable to the sale of our retail collection division in May 2002 and a reduction in ongoing Commercial Collection Revenues. Q4 gross margin of \$455,284 was 30.9% of revenue compared with Q3 gross margin of \$671,922 or 45.3% of revenue. This decline was largely the result of increased costs.

### **Operating earnings**

We define operating earnings as earnings before interest expense, amortization, financing and investor relations and non-recurring items. In fiscal 2003, operating earnings decreased to \$(57,056) versus \$372,089 in fiscal 2002. This reduction of \$429,145 of which \$481,523 was recorded in Q4, is the result of increased costs.

### **Amortization of capital assets**

Amortization of capital assets was \$527,297 in 2003 versus \$641,081 in 2002. This decrease of \$113,784 is the result of reduced capital spending during the year and early buy back of a capital lease.

### **Gain on sale of assets**

Gain on sale of assets represents the sale and lease back of Corporation assets. The gain of \$208,152 results from the buy back of the leased assets during Q3.

### **Cash flow**

Cash flow from business operations decreased in 2003 from 2002 by \$420,267.

The cash flow from financing activities increased in 2003 over 2002 by \$2,268,231 which resulted mainly from private placement funds and the related issuance of capital stock.

### **Consolidated financial position**

Total consolidated Assets at May 31, 2003 were \$4,148,594 compared with \$3,780,542 at May 31, 2002. This change is mainly the result of an increase in cash from private placements of \$1,485,763, offset by a reduction in accounts receivable of \$738,885, reduction in prepaid and sundry of \$71,640 and reduction in capital assets of \$287,186.

Total consolidated Liabilities at May 31, 2003 were \$4,288,186 compared with \$4,694,614 at May 31, 2002 for a decrease of \$406,428. This decrease is mainly the result of reductions in accounts payable and accrued liabilities of \$72,931, Deferred Revenue of \$83,017, long term debt of \$131,300, obligation under capital leases of \$305,342, deferred gain on sale of capital assets of \$290,405, convertible debentures of \$150,000 and note payable of \$50,000 offset with an increase in Bank Indebtedness of \$106,169 and Debentures of \$580,000.

### **Outlook**

After joining the business at the very end of the first quarter, improvements to our results will only start to become evident after several months.

CARMA has built many long term client relationships in its core collection and credit reporting business. This strong base of relationships will be maintained and cultivated. Plans to improve customer satisfaction by implementing service improvements have already been started. We have established a Customer Relationship Management Group to provide an enhanced level-of service to all our customers. Over the year we will ensure that clients continue to perceive CARMA as a recognized leader in the industry.

We now have a team focused on growing sales to new clients. This, along with our Customer Relationship Management Group will successfully increase our revenues. In addition, we expect that our Credit Assessment Program that was introduced last year and Project Reporting capabilities will greatly aid in the achievement of strong organic growth.

Our newest divisions, Accounts Receivable Management and Asset Based Lending, will be growing components in the 2004 fiscal period and are expected to become material sources of revenue in future years.

The Corporation will continue to seek acquisitions that complement the services that we currently provide to our clients.

## **FINANCIAL YEAR ENDED MAY 31, 2002**

### **Consolidated revenues**

The Corporation is pleased to report its commercial collection revenues for Canada Bonded Attorney (CBA) increased 17.5% over last year and credit reporting revenues for Lumbermen's Credit Bureau/Mercantile Credit Bureau (LCB/MCB) increased 9.6% over the same period.

These results reaffirm management's decision to focus on the opportunities presented in the Business to Business marketplace that is serviced by CBA and LCB/MCB. Consolidated Revenues for the year ended May 31, 2002 were \$9,479,882, an increase of \$279,732 or 3.0% over the previous year. Total revenues were affected by a \$354,673 reduction in consumer collection revenues over 2001. During Q4, 2002, CBA and LCB/MCB revenues increased by \$80,738 over Q3, 2002 which was offset by a reduction of \$255,481 in consumer revenues.

### **Gross margin**

Third Party Debt Recovery gross margin of \$3,308,825 improved to 51.6% of revenue this year from 51.0% the previous year. Credit Reporting and Evaluation registered a gross margin of \$1,298,711 representing 42.4% of revenue compared to 45.6% the previous year. This reduction is primarily attributable to the investment associated with the development of our CAP (Credit Assessment Program) product and is expected to be recovered through increased revenue in 2003. Total gross margin in 2002 was \$4,607,536 or 48.6% of revenue compared to \$4,530,961 or 49.2% of revenue in 2001. Q4 gross margin of \$1,026,736 was 46.0% of revenue compared with Q3 gross margin of \$1,218,394 or 50.3% of revenue. This decline was largely attributable to reduced consumer collection revenues.

### **Operating earnings**

We define operating earnings as earnings before interest expense, taxes, amortization, financing and investor relations and non-recurring items. In fiscal 2002, operating earnings increased to \$372,089 versus \$220,233 in fiscal 2001. This represents an improvement of 69.0% and reflects management's commitment to profitable growth.

### **Amortization of capital assets**

Amortization of capital assets was \$641,081 in 2002 versus \$472,676 in 2001. This increase of \$168,405 is the result of increased capital spending during the past two years.

### **Gain on sale of assets**

Gain on sale of assets represents the sale and lease back of Corporation assets. The entire transaction produced a gain on sale to the Corporation of \$694,734 and is amortized over the three-year term of the lease agreement. The \$285,481 gain represents current years gain allowable under generally accepted accounting principles.

### **Amortization of goodwill**

Goodwill is associated with previous years' acquisitions of consumer collection and credit reporting units and represents the normal amortization in accordance with the Corporation's stated accounting policies. The Corporation has fully expensed the remaining balance of goodwill in 2002.

### **Loss on sale of divisional assets**

During the fiscal year the Corporation sold its consumer collection division which resulted in a loss on the disposal of assets. This divestiture, as well as the centralization of our Montreal and Calgary offices into Toronto, will result in operational cost savings in fiscal 2003. In addition, goodwill amortization of \$312,706 and the Loss on Sale of Divisional Assets of \$239,782 will be eliminated in fiscal 2003.

### **Cash flow**

Cash flow from business operations increased in 2002 over 2001 by \$162,972.

### **Consolidated financial position**

Total consolidated Assets at May 31, 2002 were \$3,780,542 compared with \$4,324,996 at May 31, 2001. This change was mainly attributable to increases in cash and accounts receivable of \$242,974 and the elimination of \$873,625 of Goodwill.

Total consolidated Liabilities at May 31, 2002 were \$4,694,614 compared with \$4,493,145 at May 31, 2001 for an increase of \$201,469. This increase was mainly attributable to a decrease in Bank Indebtedness and Long Term Debt of \$158,122 and decrease on Capital Lease Obligation of \$120,460, offset with growth in deferred revenue of \$223,232, and an increase in Accounts Payable and Accrued Liabilities of \$281,804

### **Outlook**

Financial sensitivities, in today's marketplace, have created an opportunity for heightened focus on the management of accounts receivable. As evidenced by the growth in CBA and LCB/MCB, the Corporation is committed to the expansion of a profitable growth strategy targeting the Business to Business accounts receivable marketplace including receivable financing, strategic alliances and complementary acquisitions.

The Corporation's strong partnership relations with its clients will enable the Corporation to grow its operations. Employing its proprietary technology, the Corporation expects revenue growth through the delivery of its expanded services.

The Corporation expects to continue to actively seek additional sources of financing to support these business goals and to meet planned capital expenditures and corporate expansion, as evidenced by the completion of a \$735,000 private placement and the issuance of a \$400,000 receivable financing in Q1, 2003. As well, the Corporation expects to continue its practice of funding a portion of its ongoing development and acquisitions through the issuance of public market instruments.

**SCHEDULE "K"**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR SYNERGEX**

*The following Management's Discussion and Analysis provides information that the Company believes is important to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying notes. Some statements contained in the Management's Discussion and Analysis of financial condition and results of operations contain forward looking statements relating to the Company's operations, which are based on our operations, forecasts and projections. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, and the Company's actual results may differ materially from those anticipated in these forward looking statements.*

### ***Consolidated Revenue***

Consolidated revenue for the year ended December 31, 2003 was \$97,194,437, a decrease of \$29,358,124 or 23.2% from \$126,552,561 for the previous year. The primary reason for the decrease in gross revenue was that in fiscal 2002 the cost and revenue related to a principal product decreased. Excluding the effect of this factor, it is management's opinion that the 2002 consolidated revenue would have not been materially dissimilar to that of 2003.

Consolidated revenues for the ten (10) months ended October 31, 2004 were \$73,128,050, and consolidated revenue in fiscal 2004 is expected to exceed fiscal 2003 gross revenue.

### ***Gross Margin***

Synergex Group's Consolidated Gross Margin of \$9,916,850 (10.2% of sales) for the year ended December 31, 2003 increased by \$1,849,902, representing a 22.9% increase year over year in gross margin earned, compared to \$8,066,946 (6.3% of sales) in the previous year. This improvement is a reflection of improved management of expenditures in 2003, increased activity in third party logistics as well as a more controlled foreign exchange hedging policy implemented by management.

Consolidated Gross Margin for the ten (10) months ended October 31, 2004 were \$7,917,644 (10.8% of sales). Management anticipates the gross margin dollars earned in the twelve (12) months of fiscal 2004 to exceed that of fiscal 2003.

### ***Net Income before Income Taxes***

In fiscal 2003, net income before minority interest and income taxes was \$3,168,924, an improvement of \$3,392,488, from (\$223,564) for fiscal 2002. Synergex entered into various transactions with other related entities in 2002 and 2003, (such as amalgamations and the allocation of discretionary income and expenses) which had an impact on taxable income of the group, in accordance with the Income Tax Act. After normalization of non-recurring expenses, net income before minority interest and income taxes would have been \$3,399,709 in 2003 and \$3,257,422 in 2002.

Net income before minority interest and income taxes for the ten (10) months ended October 31, 2004 was \$2,515,861. Throughout 2004, management has continued to implement and monitor its cost reduction policies.

### ***Liquidity & Capital Resources***

Synergex' primary sources of cash have historically been cash flow from operations and borrowings. Cash has been used for purchase of equipment and general working capital.

As of December 31, 2003 Synergex had a net cash position of \$8,336,628 and \$4,934,252 as at October 31, 2004. The Company's net cash position varies with the timing of cash receipts from customers and payments to suppliers. There is no long-term indebtedness at either October 31, 2004 or December 31, 2003.

Commencing in late 2002, Synergex has focused on decreasing borrowings and on generating cash flows from operations.

Notwithstanding the above, Synergex also has borrowing facilities in place in the event that short-term financing is required.

Cash flows from business operations for the year ended December 31, 2003 were \$5,106,122, an increase of \$4,307,096 from \$799,076 in fiscal 2002. This increase is mainly the result of reduced accounts receivable and accounts payable. The reduced accounts receivable is due to reduced sales compared to the previous year. The decreased level of accounts payable is due to the positive correlation between accounts payable and accounts receivable.

Cash flows from investing activities for the year ended December 31, 2003 were \$(3,455,707), a decrease of \$2,488,420 from \$(967,287) for fiscal 2003. This is mainly due to corporate amalgamations. The main purpose of the amalgamation was to make available non-capital losses to be carried forward against future income earned by the Group. Some of the non-capital losses were utilized in 2003 and will be utilized in 2004. It is anticipated that these non-capital losses will be utilized over the next few years.

Cash provided by financing activities for the year ended December 31, 2003 were \$1,730,687, a decrease of \$3,332,773 from \$5,063,460 for fiscal 2002. This is mainly due to the repayment of indebtedness.

Due to the company substantially eliminating its indebtedness in fiscal 2003, in the Company incurred lower interest charges, improved cash flow and working capital.

Management expects that the positive working capital position will be maintained and that its positive working capital is sufficient to support its current operations. However, as the business expands some external funding may be required.

### ***Consolidated Financial Position***

Total consolidated assets decreased to \$37,225,926 at December 31, 2003 from \$45,058,163 at December 2002. This is mainly due to the decreases in accounts receivable offset by the increase in cash. As at October 31, 2004, the consolidated assets were \$37,170,727, which does not differ significantly from the December 31, 2003 results.

Total consolidated liabilities decreased to \$29,909,283 at December 31, 2003 from \$41,666,141 at December 31, 2002. This decrease is primarily due to the elimination of indebtedness. As at October 31, 2004, the consolidated liabilities were \$29,862,295, which does not differ significantly from the December 31, 2003 results.

Total shareholders' equity (including capital stock, retained earnings minority interest and shareholder advances) increased to \$7,316,643 at December 31, 2003 from \$3,392,022 at December 31, 2002. This is primarily due to the increased profitability of the company and the net adjustments resulting from the amalgamations noted above. As at October 31, 2004, the consolidated shareholders' equity was \$7,308,432, which does not differ significantly from, the December 31, 2003 results.

### ***Outlook and Future Developments***

In management's opinion, Synergex continues to show a strong balance sheet and strong earnings with the current product mix. Management is committed to consistently providing value-added services to its customer base.

Synergex, as a "New Generation" organization, is reforming the delivery of business services that commonly are structured as inventory financing, distribution, factoring and technology procurement. Synergex does this through scrupulous administration and thorough coordination of the functions required to acquire product from manufacturers. In addition to facilitating co-administration of pricing and inventory management between manufacturers and corporate buyers, the Company ultimately directs payment for those products back to the manufacturer while minimizing inventory and credit risks to Synergex. Accordingly, Synergex offers clients a menu of services, so that its customers can engage it to be a piece of the larger puzzle, or to comprehensively serve the Canadian market space.

Generally, the existing competitors for services offered by Synergex are highly specialized, and the industries in which it competes are highly fragmented. Synergex Group's competencies create an integrated set of solutions, and the company believes there are multiple opportunities available to develop its business.

Synergex intends to continue the development of its "Corporate Concept", which is rooted in resolving payment resolution, and in providing logistics and other business services. Synergex is a new type of organization that can take the most important working capital elements of a client's balance sheet and provide services to manage them.

Synergex' management plans to continue to broaden its technology platform and suite of business services it offers so that the organization can deliver more services to its customers in a manner that builds on the organization's deep knowledge about those customers.

In addition, Synergex intends to continue to enhance its administrative processes and technology base to continue to make each workgroup not only more effective for the customer and efficient in cost management, but also to continually unify its suite of services

**SCHEDULE "L"**

**SUMMARY OF A FAIRNESS OPINION AND VALUATION REPORT BY KRAFT  
YABROV VALUATIONS INC. RELATING TO THE PROPOSED TRANSACTION BY  
WHICH CARMA FINANCIAL SERVICES CORPORATION WOULD PURCHASE ALL  
THE OUTSTANDING SHARES OF SYNERGEX GROUP INC. AT OCTOBER 31, 2004**

**SUMMARY OF A FAIRNESS OPINION AND VALUATION REPORT BY KRAFT YABROV VALUATIONS INC. RELATING TO THE PROPOSED TRANSACTION BY WHICH CARMA FINANCIAL SERVICES CORPORATION WOULD PURCHASE ALL THE OUTSTANDING SHARES OF SYNERGEX GROUP INC. AT OCTOBER 31, 2004.**

On June 16, 2004 Carma Financial Services Corporation (“Carma”) engaged Kraft Yabrov Valuations Inc. (“KYV”) to supply a Fairness Opinion and Valuation Report, setting out its view of the proposed transaction at October 31, 2004 by which Carma would purchase all the outstanding shares of Synergex Group Inc. (“Synergex”).

We understand that the Transaction is subject to provisions governing “related party transactions” within the meaning of Rule 61-501 of the Ontario Securities Commission and that consequently the board of Carma has established a special committee to consider the Transaction.

Carma is a reporting issuer, or its equivalent in the Provinces of British Columbia, Alberta and Ontario. Carma’s common shares are listed on the TSX Venture Exchange and trade under the symbol “CFS”.

In the Fairness Opinion and Valuation Report, KYV considered the Capitalized Earnings Value of Synergex. No consideration was given to benefits, such as possible synergies or economies of scale.

Dollar values in the report are expressed in Canadian dollars.

**Benefits Accruing To Interested Parties**

The actual monetary value accruing to interested parties as a result of the potential benefits noted below cannot be accurately quantified and has not been included in the Fairness Opinion and Valuation Report.

This transaction will:

- (i) provide a larger cash flow as a combined entity;
- (ii) provide more potential for access to public equity markets and for raising capital in the future;
- (iii) create a larger, more balanced entity with a more diversified asset base;
- (iv) provide the potential for greater liquidity for shareholders; and,
- (v) increase the companies’ competitive positions in their given industries as a result of their increased size and public company status.

## **Independence**

Neither KYV nor any of its affiliates is an issuer, insider, associated or affiliated entity (as those terms are defined in the Securities Act (Ontario)) of Synergex, Carma or their respective associates or affiliates (collectively the “Interested Parties”). In the twenty-four months prior to the date of the Engagement Letter, KYV has not been engaged to provide any financial services to any of the Interested Parties, other than services provided for under the Engagement Agreement, except for that noted below.

KYV was engaged to prepare an estimate of the fair market value of all the assets and liabilities of Carma as at February 29, 2004. In this regard, an engagement letter dated March 8, 2004 was signed on this date by Mr. R.T. Watson, Director. At the request of Carma such engagement was not completed and was superseded by this engagement. We were paid a fee for our services rendered under this prior engagement.

There are currently no understandings, agreements or commitments between KYV and any of the Interested Parties with respect to any future business dealings. Additionally, pursuant to the Engagement Agreement, the compensation of KYV under the Engagement Agreement does not depend in whole or in part on the conclusions reached in the Fairness Opinion and Valuation Report, or the successful completion of the Transaction. KYV’s total compensation for this assignment is calculated based on total hours worked at standard firm rates.

## **Synergex**

Synergex (and predecessor companies) began operations approximately seventeen years ago. The initial business undertaken was customs brokerage and freight forwarding. The customs brokerage operations were sold approximately two years ago and freight forwarding business has changed dramatically in recent years.

Synergex’s business is generally divisible into two business areas: third-party logistics services and, building on its strengths in third-party logistics, a layer of value-added commercial services through innovative adjustments to the traditional first-party distributor business model. Approximately six years ago Synergex became the commercial gateway to Canadian retailers for a large manufacturer of computer entertainment hardware and software.

## **The Transaction**

On October 22, 2004, Carma entered into an agreement to purchase all of the issued and outstanding shares of Synergex from Mr. David Aiello, and to purchase the fifteen percent of Synergex Logistics Corp., not owned by Synergex, from Mr. Matthew Reiter (Messrs. Aiello and Reiter hereafter collectively referred to as the “Vendors”). Carma agreed to issue common shares of Carma in exchange for all of the issued and outstanding common and preferred shares of Synergex and settlement of any amounts due to shareholder.

The purchase price will be fourteen million four hundred thousand dollars subject to certain adjustments, including a “Purchase Price Adjustment”. On the closing date, the purchase price will be satisfied by Carma issuing to the Vendors a total of 53,333,333 Common Shares in the capital of Carma, and this was determined by dividing the sum of fourteen million four hundred thousand dollars by twenty-seven cents per share. The Purchase Price Adjustment is calculated with reference to Synergex’ actual working capital position on the closing date. For each dollar of working capital reflected by Synergex on the closing date financial statements, computed in accordance with generally accepted accounting principles, the purchase price shall be increased by one dollar.

The Purchase Price Adjustment shall be satisfied by issuing to Mr. David Aiello, Carma Series A Preferred Shares. These Series A Preferred Shares will be issued at a price of one dollar per share, will carry one vote per share, and will have a preferred cumulative dividend of HSBC Bank of Canada prime lending rate (“Prime”) plus point seventy-five percent per annum payable quarterly and being redeemable at any time at one dollar plus all unpaid dividends per share. The annual dividend rate will be set quarterly based on the actual Prime rate plus point seventy-five percent.

The Purchase Price Adjustment at October 31, 2004 would have been \$5,266,534, which is derived as follows: current assets of \$35,069,829 minus current liabilities of \$29,803,295 Therefore, the total purchase price at October 31, 2004 would have been \$19,666,534.

It is a condition of the completion of this Transaction that the Synergex working capital be not less than three million dollars on the closing date.

### **Valuation Approaches and Calculations**

#### **Synergex**

There are two major approaches that can be used to value a closely held company. The first approach is an asset-based approach and the second approach is based on the earnings of the company.

Based on the information reviewed and relied upon, we concluded that the most appropriate method of determining the fair market value of Synergex was with reference to the earnings that they might reasonably be able to maintain.

The capitalized earnings approach utilizes three components to arrive at the value. The first is an estimate of the future maintainable after-tax earnings that the company is capable of producing over time. The second is the capitalization rate or its inverse, the price-earnings multiple. The third is the value of redundant or non-operating assets.

## **Total Fair Market Value**

We have averaged normalized after tax profits for the years ended December 31, 2002 and 2003 and the forecasted year ending December 31, 2004. Based on this, future maintainable after-tax earnings have been determined to be in the range of \$2,200,000 to \$2,500,000. To this we have applied a multiplier in the range of 6.3 to 6.9. The value of business operations is in the range of \$15,180,000 to \$15,750,000. To this we have added: non-operating asset, working capital in the amount of \$2,700,000, the due to director at October 31, 2004 in the amount of \$707,193 and the benefit of a non-capital loss carry-forward (from a corporation it acquired) in the amount of \$818,000. We have calculated the total fair market value to be in the range of \$19,405,000 to \$19,975,000.

## **Carma Share Price**

When valuing a public company, the market price is often the basis of determining value. The "market price" would be the price paid in a normal market, being one in which there is neither any undue selling pressure or undue buying demand distorting the market price of the securities. Carma trades under the symbol "CFS" on the TSX Venture Exchange. On October 25, 2004 the closing market price was \$0.62. From May 3 to October 25, 2004, the lowest share price was reported on July 2, 2004 of \$0.55 and the highest share price was on June 18, 2004 of \$0.79. Share trading levels were low to reasonable during this period.

From the beginning of 2000 until the first quarter of 2003, Carma stock price was on a downward trend. In 2000, the share price was hovering around \$2.25 from approximately February to May and then by December at around \$0.50 per share.

In 2001, the highest stock price was \$0.65, but the price generally was below \$0.50. In 2002 the highest trading price was \$0.40 per share, but by April it was consistently trading below \$0.25 per share. By December 2002, the stock price was approximately \$0.10. In the first quarter of 2003, prices continued at this level. In April, the price rose above \$0.25 per share and by June it rose above \$0.50 per share. From this time on, shares generally traded at levels at or just below those in first quarter 2004.

The share price rose in the first few months of 2003 presumably as a result of shareholders' reaction to the new management. At this time, the increased share price reflected the confidence in new management and things to come for Carma. The value in the market place was based on speculation as to acquisitions and capital influx to augment Carma's current operations. The share price was not reflective of Carma operating results.

For the years ending May 31, 1999 to 2004, Carma's net losses were as follows:

2004	\$ 371,657
2003	1,300,299
2002	946,563
2001	759,255
2000	391,717
1999	91,096

For the eleven months ended April 30, 2004, Carma reported a net loss of \$362,326. Carma's projections over the next two years indicate either a loss or breakeven on operations. New management is working on stabilizing the business, improving customer relations, improving revenues and maintaining more efficient financial controls.

In our preliminary calculations, as a result of the losses for previous periods and short term future outlook of a breakeven position at best, we could not value Carma based on an earnings approach. Rather we chose an asset approach, namely orderly liquidation. We concluded that the estimated fair market value of all of the assets and liabilities of Carma at February 29, 2004 was in the range of \$1,030,600 to \$1,480,600. There were 37,734,519 shares outstanding on this date. This translates to a price per share of \$0.03 to \$0.04.

### **Experience Of The Independent Valuator**

The writer of this Fairness Opinion and Valuation Report is Bernard Kraft. He has been a Senior Partner with Kraft, Berger, Grill Schwartz, Cohen and March LLP and predecessor companies since 1955. Until 1977, he was primarily engaged in the areas of accounting, auditing and taxation. Since 1977, he has been involved mostly in the areas of business consulting and valuation. He is also President and co-founder of Kraft Yabrov Valuations Inc., a company specializing in the areas of litigation support, mergers and acquisitions, business valuations and corporate finance and management consulting. KYV has participated in a number of transactions involving public and private companies and have extensive experience in preparing fairness opinions and valuation reports.

Bernard Kraft is a member of the following professional bodies:

1.	C.A.	- Institute of Chartered Accountants of Ontario	- 1953
2.	C.B.V.	- The Canadian Institute of Chartered Business Valuators	- 1992
3.	C.F.E.	- Association of Certified Fraud Examiners	- 1993
4.	A.S.A.	- American Society of Appraisers	- 1997
5.	I.F.A.	- Designated Specialist In Investigative and Forensic Accounting	- 2000

Bernard Kraft has organized and presented an extensive number of seminars and workshops on various topics, including management and financial consulting and business valuations. He has testified as an expert witness before the Supreme Court of Ontario and before the Ontario Court (General Division).

### **Conclusion**

Based on our review of the documents and information provided to us, the explanations received and subject to the assumptions, qualifications and restrictions noted herein, it is our opinion that the terms of the proposed transaction are "fair from a financial point of view to the minority shareholders".

