

COPERNIC INC  
Form 20-F  
April 01, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 2009

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-17164

COPERNIC INC.  
(Exact name of registrant as specified in its charter)  
(formerly MAMMA.COM)

(Translation of Registrant's name into English)

PROVINCE OF ONTARIO (CANADA)  
(Jurisdiction of incorporation or organization)

360 Franquet Street, Suite 60  
Sainte-Foy, Quebec  
Canada, G1P 4N3  
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Common Shares, no par value

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

2,091,437 Common Shares

Indicate by check mark if the registrant is a well-know seasoned issuer, as defined in Rule 405 of the Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note- Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1932 from their obligations under those Sections.

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b of the Exchange Act (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

International Financial Reporting Standards as issued by the International Accounting Standards

U.S. GAAP  Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes

No

Explanatory Notes

On June 14, 2007, the Company changed its name from Mamma.com Inc. to Copernic Inc.

In this Annual Report on Form 20-F, unless otherwise indicated or the context otherwise requires, all monetary amounts are expressed in United States dollars.

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Special Note on Forward-Looking Statements

INFORMATION CONTAINED IN THIS ANNUAL REPORT ON FORM 20-F INCLUDES FORWARD-LOOKING STATEMENTS, WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS “BELIEVES,” “EXPECTS,” “MAY,” “DESIRES,” “WILL,” “SHOULD,” “PROJECTS,” “ESTIMATES,” “CONTEMPLATES,” “ANTICIPATES,” “INTENDS,” OR ANY NEGATIVE SUCH AS “DOES NOT BELIEVE” OR OTHER VARIATIONS THEREOF OR COMPARABLE TERMINOLOGY. NO ASSURANCE CAN BE GIVEN THAT POTENTIAL FUTURE RESULTS OR CIRCUMSTANCES DESCRIBED IN THE FORWARD-LOOKING STATEMENTS WILL BE ACHIEVED OR OCCUR. SUCH INFORMATION MAY ALSO INCLUDE CAUTIONARY STATEMENTS IDENTIFYING IMPORTANT FACTORS WITH RESPECT TO SUCH FORWARD-LOOKING STATEMENTS, INCLUDING CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO VARY MATERIALLY FROM THE PROJECTIONS AND OTHER EXPECTATIONS DESCRIBED IN SUCH FORWARD-LOOKING STATEMENTS. PROSPECTIVE INVESTORS, CUSTOMERS, VENDORS AND ALL OTHER PERSONS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS ARE NOT ASSURANCES, FORECASTS OR GUARANTEES OF FUTURE PERFORMANCE DUE TO RELATED RISKS AND UNCERTAINTIES, AND THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PROJECTED. FACTORS WHICH COULD CAUSE RESULTS OR EVENTS TO DIFFER FROM CURRENT EXPECTATIONS INCLUDE, AMONG OTHER THINGS: THE SEVERITY AND DURATION OF THE ADJUSTMENTS IN OUR BUSINESS SEGMENTS; THE EFFECTIVENESS OF OUR RESTRUCTURING ACTIVITIES, INCLUDING THE VALIDITY OF THE ASSUMPTIONS UNDERLYING OUR RESTRUCTURING EFFORTS; FLUCTUATIONS IN OPERATING RESULTS; THE IMPACT OF GENERAL ECONOMIC, INDUSTRY AND MARKET CONDITIONS; THE ABILITY TO RECRUIT AND RETAIN QUALIFIED EMPLOYEES; FLUCTUATIONS IN CASH FLOW; INCREASED LEVELS OF OUTSTANDING DEBT; EXPECTATIONS REGARDING MARKET DEMAND FOR PARTICULAR PRODUCTS AND SERVICES AND THE DEPENDENCE ON NEW PRODUCT/SERVICE DEVELOPMENT; DELAYS IN MARKET ACCEPTANCE OF NEW PRODUCTS; THE ABILITY TO MAKE ACQUISITIONS AND/OR INTEGRATE THE OPERATIONS AND TECHNOLOGIES OF ACQUIRED BUSINESSES IN AN EFFECTIVE MANNER; THE IMPACT OF RAPID TECHNOLOGICAL AND MARKET CHANGE; THE IMPACT OF PRICE AND PRODUCT COMPETITION; THE UNCERTAINTIES IN THE MARKET FOR INTERNET-BASED PRODUCTS AND SERVICES; STOCK MARKET VOLATILITY; THE TRADING VOLUME OF OUR STOCK; THE POSSIBILITY THAT OUR STOCK MAY NOT SATISFY OUR REQUIREMENTS FOR CONTINUED LISTING ON THE NASDAQ CAPITAL MARKET INCLUDING WHETHER THE MINIMUM BID PRICE FOR THE STOCK FALLS BELOW \$1; AND THE ADVERSE RESOLUTION OF LITIGATION OR RELATED EVENTS COULD HAVE A NEGATIVE IMPACT ON THE COMPANY, INCREASE COMPANY EXPENSES OR CAUSE EVENTS OR RESULTS TO DIFFER FROM CURRENT EXPECTATIONS. FOR ADDITIONAL INFORMATION WITH RESPECT TO THESE AND CERTAIN OTHER FACTORS THAT MAY AFFECT ACTUAL RESULTS, SEE THE REPORTS AND OTHER INFORMATION FILED OR FURNISHED BY THE COMPANY WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) AND/OR THE ONTARIO SECURITIES COMMISSION (“OSC”) RESPECTIVELY ACCESSIBLE ON THE INTERNET AT [WWW.SEC.GOV](http://WWW.SEC.GOV) AND [WWW.SEDAR.COM](http://WWW.SEDAR.COM), OR THE COMPANY’S WEB SITE AT [WWW.COPERNIC-INC.COM](http://WWW.COPERNIC-INC.COM). ALL INFORMATION CONTAINED IN THIS ANNUAL REPORT ON FORM 20-F IS QUALIFIED IN ITS ENTIRETY BY THE FOREGOING AND REFERENCE TO THE OTHER INFORMATION THE COMPANY FILES WITH THE OSC AND SEC. UNLESS OTHERWISE REQUIRED BY APPLICABLE SECURITIES LAWS, THE COMPANY DISCLAIMS ANY INTENTION OR OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

Period-to-Period Comparisons

A VARIETY OF FACTORS MAY CAUSE PERIOD-TO-PERIOD FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS, INCLUDING BUSINESS ACQUISITIONS, REVENUES AND EXPENSES RELATED TO THE INTRODUCTION OF NEW PRODUCTS AND SERVICES OR NEW VERSIONS OF EXISTING PRODUCTS, NEW OR STRONGER COMPETITORS IN THE MARKETPLACE AS WELL AS CURRENCY FLUCTUATIONS, ECONOMIC RECESSIONS AND RECOVERIES. HISTORICAL OPERATING RESULTS ARE NOT INDICATIVE OF FUTURE RESULTS AND PERFORMANCE.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following consolidated statements of operations data for the years ended December 31, 2009, 2008 and 2007, and consolidated balance sheets data as at December 31, 2009 and 2008 is derived from the audited consolidated financial statements included in Item 17. All other financial information below is unaudited and derived from sources not included in Item 17. The selected consolidated financial data in the following tables should be read in conjunction with our audited consolidated financial statements, including the notes thereto, and “Item 5 – Operating and Financial Review and Prospects”, included elsewhere in this Form 20-F.



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## CANADIAN GAAP

YEAR ENDED DECEMBER 31

|  | 2009         | 2008         | 2007         | 2006         | 2005         |
|--|--------------|--------------|--------------|--------------|--------------|
|  | \$           | \$           | \$           | \$           | \$           |
| <b>Consolidated Statements of Operations Data</b>                        |              |              |              |              |              |
| Revenues   | 1,653,026    | 2,218,264    | 1,702,256    | 2,654,848    | 9,443,975    |
| Earnings (loss) from continuing operations                               | (2,285,514 ) | (7,529,104 ) | (15,461,176) | (5,621,340 ) | -            |
| Results of discontinued operations, net of income taxes                  | 4,399,406    | 1,038,400    | 1,030,350    | 1,351,960    | (5,658,318 ) |
| Net earnings (loss) for the year   | 2,113,892    | (6,490,704 ) | (14,430,826) | (4,269,380 ) | (5,658,318 ) |
| Basic and diluted earnings (loss) per share from continuing operations   | (1.09 )      | (3.60 )      | (7.43 )      | (2.74 )      | -            |
| Basic and diluted earnings (loss) per share from discontinued operations | 2.10         | 0.50         | 0.50         | 0.66         | (2.76 )      |
| Basic and diluted net earnings (loss) per share                          | 1.01         | (3.10 )      | (6.93 )      | (2.08 )      | (2.76 )      |
| Weighted average number of shares – basic                                | 2,091,437    | 2,091,437    | 2,080,699    | 2,049,049    | 2,049,049    |
| Weighted average number of shares – diluted                              | 2,091,437    | 2,091,437    | 2,080,699    | 2,049,049    | 2,049,049    |
|  | 2009         | 2008         | 2007         | 2006         | 2005         |
|  | \$           | \$           | \$           | \$           | \$           |
| <b>Consolidated Balance Sheets Data</b>                                  |              |              |              |              |              |
| Total assets   | 12,711,841   | 10,782,059   | 18,357,856   | 33,339,488   | 38,327,198   |
| Total liabilities  | 1,219,024    | 1,509,843    | 2,557,462    | 4,444,838    | 5,810,217    |
| Net assets   | 11,492,817   | 9,272,216    | 15,800,394   | 28,894,650   | 32,516,981   |
| Working capital  | 4,172,099    | 5,051,474    | 6,413,044    | 8,533,546    | 8,944,985    |
| Capital stock  | 96,556,485   | 96,556,485   | 96,556,485   | 95,298,234   | 95,298,234   |
| Contributed surplus  | 5,853,737    | 5,747,028    | 5,784,502    | 5,706,183    | 5,249,902    |
| Accumulated other comprehensive income                                   | 561,137      | 561,137      | 561,137      | 561,137      | 370,369      |
| Accumulated deficit  | (91,478,542) | (93,592,434) | (87,101,730) | (72,670,904) | (68,401,524) |
| Shareholders' equity   | 11,492,817   | 9,272,216    | 15,800,394   | 28,894,650   | 32,516,981   |
| <b>Other</b>   |              |              |              |              |              |
| Cash dividends   | None         | None         | None         | None         | None         |



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U.S. GAAP

YEAR ENDED DECEMBER 31st

|  | 2009          | 2008          | 2007          | 2006          | 2005          |
|--|---------------|---------------|---------------|---------------|---------------|
|  | \$            | \$            | \$            | \$            | \$            |
| <b>Consolidated Statements of Operations Data</b>                        |               |               |               |               |               |
| Revenues   | 1,653,026     | 2,218,264     | 1,702,256     | 2,654,848     | 9,443,975     |
| Earnings (loss) from continuing operations                               | (2,285,514 )  | (7,529,104 )  | (15,461,176 ) | (5,621,340 )  | -             |
| Results of discontinued operations, net of income taxes                  | 4,399,406     | 1,038,400     | 1,030,350     | 1,351,960     | (5,658,318 )  |
| Net earnings (loss) for the year   | 2,113,892     | (6,490,704 )  | (14,430,826 ) | (4,269,380 )  | (5,658,318 )  |
| Basic and diluted earnings (loss) per share from continuing operations   | (1.09 )       | (3.60 )       | (7.43 )       | (2.74 )       | -             |
| Basic and diluted earnings (loss) per share from discontinued operations | 2.10          | 0.50          | 0.50          | 0.66          | (2.76 )       |
| Basic and diluted net earnings (loss) per share                          | 1.01          | (3.10 )       | (6.93 )       | (2.08 )       | (2.76 )       |
| Weighted average number of shares – basic                                | 2,091,437     | 2,091,437     | 2,080,699     | 2,049,049     | 2,049,049     |
| Weighted average number of shares – diluted                              | 2,091,437     | 2,091,437     | 2,080,699     | 2,049,049     | 2,049,049     |
|  | 2009          | 2008          | 2007          | 2006          | 2005          |
|  | \$            | \$            | \$            | \$            | \$            |
| <b>Consolidated Balance Sheets Data</b>                                  |               |               |               |               |               |
| Total assets   | 12,711,841    | 10,782,059    | 18,357,856    | 33,339,488    | 38,327,198    |
| Total liabilities  | 1,219,024     | 1,509,843     | 2,557,462     | 4,444,838     | 5,810,217     |
| Net assets   | 11,492,817    | 9,272,216     | 15,800,394    | 28,894,650    | 32,516,981    |
| Working capital  | 4,172,099     | 5,051,474     | 6,413,044     | 8,533,546     | 8,944,985     |
| Capital stock  | 113,326,055   | 113,326,055   | 113,326,055   | 112,067,804   | 112,067,804   |
| Contributed surplus  | 6,891,427     | 6,784,718     | 6,822,192     | 6,743,873     | 6,287,592     |
| Accumulated other comprehensive income                                   | 561,137       | 561,137       | 561,137       | 561,137       | 370,369       |
| Accumulated deficit  | (109,285,802) | (111,399,694) | (104,908,990) | (90,478,164 ) | (86,208,784 ) |
| Shareholders' equity   | 11,492,817    | (9,272,216 )  | 15,800,394    | 28,894,650    | 32,516,981    |
| <b>Other</b>   |               |               |               |               |               |
| Cash dividends   | None          | None          | None          | None          | None          |



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## CAPITALIZATION AND INDEBTEDNESS

The following tables set forth the consolidated cash and consolidated capitalization of the Company as at December 31, 2009 prepared in accordance with Canadian GAAP and United States GAAP, respectively.

(Prepared in accordance with Canadian GAAP)

|                                   | As at December 31,<br>2009<br>\$ |
|-----------------------------------|----------------------------------|
| Cash                              | 465,949                          |
| Temporary investments             | 3,504,930                        |
| Indebtedness                      |                                  |
| Current liabilities               | 1,165,972                        |
| Obligations under capital leases  | 7,906                            |
| Future income taxes               | 45,146                           |
| Shareholders' Equity              |                                  |
| Capital stock                     | 96,556,485                       |
| Contributed surplus               | 5,853,737                        |
| Cumulative translation adjustment | 561,137                          |
| Accumulated deficit               | (91,478,542 )                    |
| Total shareholders' equity        | 11,492,817                       |
| Total capitalization              | 12,711,841                       |

(Prepared in accordance with US GAAP)

|                                   | As at December 31,<br>2009<br>\$ |
|-----------------------------------|----------------------------------|
| Cash                              | 465,949                          |
| Temporary investments             | 3,504,930                        |
| Indebtedness                      |                                  |
| Current liabilities               | 1,165,972                        |
| Obligations under capital leases  | 7,906                            |
| Future income taxes               | 45,146                           |
| Shareholders' Equity              |                                  |
| Capital stock                     | 113,326,055                      |
| Contributed surplus               | 6,891,427                        |
| Cumulative translation adjustment | 561,137                          |
| Accumulated deficit               | (109,285,802 )                   |
| Total shareholders' equity        | 11,492,817                       |
| Total capitalization              | 12,711,841                       |

## Reasons for the Offer and Use of Proceeds

Not Applicable.



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RISK FACTORS

Risks associated with recently announced transactions.

Copernic announced, on February 12, 2010, that it had amended the terms and conditions of its previously announced private placement with 2208720, Ontario Limited. As described under the section Item 4. Information on the Company Subsequent Events in this report the proposed amended requires a series of transactions to be consummated. Although a break fee is payable in the event of a failure by the investors to close the transaction, there is no assurance that the transaction will close in a timely manner or at all. In addition, the consummation of such transaction will result in a substantial change in the nature of the business of Copernic. There is no assurance that if consummated such new business shall be profitable in the short or medium term.

Our revenues depend to some degree on our relationship with some customers, the loss of which would adversely affect our business and results of operations.

For the year ended December 31, 2009, the Company had two major customers from which 45% or more of total revenues are derived. Revenues from these customers represented 34% (an ad placement agency settling revenues for thousands of retail transactions) and 11% of the Company's revenues as compared to 28% and 10% for the same period last year. These customers have traditionally been good payers.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and our past results should not be relied on as an indication of our future performance. Our operating results may fluctuate as a result of many factors related to our business, including the competitive conditions in the industry, loss of significant customers, delays in the development of new services and usage of the Internet, as described in more detail below, and general factors such as size and timing of orders and general economic conditions. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this "Risk Factors" section, and the following factors, may affect our operating results:

Our ability to continue to attract users to our Web site

Our ability to monetize new products

Our ability to attract advertisers

The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure

Our focus on long term goals over short term results

The results of any investments in risky projects

Payments that may be made in connection with the resolution of litigation matters

General economic conditions and those economic conditions specific to Corporations, the Internet and Internet advertising

Our ability to keep our Web site operational at a reasonable cost and without service interruptions

Geopolitical events such as war, threat of war or terrorist actions

Our ability to generate revenues through licensing, subscriptions and revenue share.



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Because our business is changing and evolving, our historical operating results may not be useful in predicting our future operating results.

We face significant competition from Microsoft, Google and Enterprise Search vendors.

We face formidable competition in every aspect of our business, and particularly from other companies that seek to provide sophisticated search tools for increased productivity both on the internet, the desktop and wireless devices. Currently, we consider our primary competitors on the desktop to be Microsoft and Google. Microsoft and Google have a variety of products, services and content that directly competes with us. Although we do not directly compete in the Enterprise search market, vendors such as Oracle, SAP and SAS amongst others offer desktop search to complement their existing product line to offer a full service solution. However search technology is evolving to context search, commonly called the semantic web. The company believes that it is well positioned to provide innovative solutions in this evolving market but there are no assurances that these new technologies will be rapidly deployed or that the company can achieve a leadership position.

Microsoft, Google and others have more employees and cash resources than we do. These companies also have longer operating histories and more established relationships with customers. They can use their experience and resources against us in a variety of competitive ways, including by product bundling, making acquisitions, investing more aggressively in research and development and competing more aggressively for end users. Microsoft and Google also have a greater ability to attract and retain users than we do because they operate Internet portals with a broad range of products, services and content. In addition Microsoft and Google can vertically integrate with wireless devices by embedding search algorithms in the devices operating system, e.g. Android. To date the company has not attempted to offer products compatible with Apple computers and wireless devices due the significant differences in operating systems. As the iPhone achieves significant market share, such a limitation may become significant.

If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could suffer.

Our success depends on providing products and services that people use for a high quality search experience. We believe that keyword search will evolve to semantic search and that context driven search from the desktop will significantly enhance internet searches yielding better results for end users. We believe that the end user will require more control on searches and that the web will become more specialized and fragmented with advertisers more focused on ROI and consummating sales transactions. Although representing a significant opportunity, our competitors are constantly developing innovations in Web search, desktop search and providing information to people. As a result, we must continue to invest significant resources in research and development in order to enhance our search technology and our existing products and services and introduce new high-quality products and services that people will use. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose end users who currently pay us for a leading technology. Our operating results would also suffer if our innovations were not responsive to the needs of our users and are not appropriately timed with market opportunity, effectively brought to market or well received in the market place. As search technology continues to develop, our competitors may be able to offer search results that are, or that are perceived to be, substantially similar or better than those generated by our search services.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of users will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the Company's brand is critical to expanding our base of users. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not

be successful. If we fail to promote and maintain the Copernic® brand, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high quality products and services, which we may not do successfully.

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We generate all of our revenue from software licensing, maintenance and subscription fees for the use of our products, and the reduction of spending by or loss of customers could seriously harm our business.

If we are unable to remain competitive and provide value to our end users, they may stop promoting our solutions, pay maintenance fees or renew annual subscription fees, which could negatively affect our net revenues and business. Copernic has on-going efforts to maintain high quality products to provide a high degree of confidence to our customer base that Copernic products are leading edge, state of the art solutions to searching for information and that the Company will maintain and renew these products with new enhancements as technology further develops. This positioning improves the brand, strengthens viral marketing and continuously grows our paying subscriber base.

We make investments in new products and services that may not be profitable.

We have made and will continue to make investments in research, development and marketing for new products, services and technologies. Our success in this area depends on many factors including our innovativeness, development support, marketing and distribution. We may not achieve significant revenue from a new product for a number of years, if at all. For the years 2007 and 2008 and 2009, we did not generate significant revenues from licensing Copernic® software and it cannot be assured that significant revenue will be generated from the licensing of Copernic® software going forward. In addition, our competitors are constantly improving their competing software, and if we fail to innovate and remain competitive our revenues from software licensing will decline.

Infringement and liability claims could damage our business.

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become increasingly high profile, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert resources and attention. In addition, many of our agreements with our advertisers require us to indemnify certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims. An adverse determination also could prevent us from offering our services to others and may require that we procure substitute services for these members.

With respect to any intellectual property rights claim, to resolve these claims, we may enter into royalty and licensing agreements on less favourable terms, pay damages or stop using technology or content found to be in violation of a third party's rights. We may have to seek a license for the technology or content, which may not be available on reasonable terms and may significantly increase our operating expenses. The technology or content also may not be available for license to us at all. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense, or stop using the content. If we cannot license or develop technology or content for the infringing aspects of our business, we may be forced to limit our product and service offerings and may be unable to compete effectively. Any of these results could harm our brand and operating results.

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In addition, we may be liable to third-parties for content in the advertising we deliver if the artwork, text or other content involved violates copyright, trademark, or other intellectual property rights of third-parties or if the content is defamatory. Any claims or counterclaims could be time-consuming, could result in costly litigation and could divert management's attention.

Additionally, we may be subject to legal actions alleging patent infringement, unfair competition or similar claims. Others may apply for or be awarded patents or have other intellectual property rights covering aspects of our technology or business. For example, we understand that X1 has won a patent to provide search results as you type a function utilised by other companies including Copernic Inc.

An inability to protect our intellectual property rights could damage our business.

We rely upon a combination of trade secret, copyright, trademark, patents and other laws to protect our intellectual property assets. We have entered into confidentiality agreements with our management and key employees with respect to such assets and limit access to, and distribution of, these and other proprietary information. However, the steps we take to protect our intellectual property assets may not be adequate to deter or prevent misappropriation. We may be unable to detect unauthorized uses of and take appropriate steps to enforce and protect our intellectual property rights. Additionally, the absence of harmonized patent laws between the United States and Canada makes it more difficult to ensure consistent respect for patent rights. Although senior management believes that our services and products do not infringe on the intellectual property rights of others, we nevertheless are subject to the risk that such a claim may be asserted in the future. Any such claims could damage our business.

Working capital may be inadequate.

For the years ended December 31, 1999 through the year ended December 31, 2003, for the years ended December 31, 2005 to December 31, 2008 and for year ended December 31, 2009, we have reported net losses from continuing operations. On June 30, 2009, the sale of Mamma.com and its AD Network for \$5 million was consummated. The purchase price is to be paid in equal payments of \$100,000 per month for 36 months beginning at the end of Q3 2009. The remaining balance will be payable at the end of the 36-month period. Management considers that liquidities as at December 31, 2009 will be sufficient to meet normal operating requirements throughout December 31, 2010. In the long term, we may require additional liquidity to fund growth, which could include additional equity offerings or debt finance. No assurance can be given that we will be successful in getting required financing in the future or that positive cash flow will be generated in the future.

The asset sale of Mamma.com and its AD Network

On June 30, 2009, the Company entered into an asset purchase agreement with Empresario, Inc., a private company located in Chicago, Illinois (the "Purchaser"), to sell certain of its assets relating to Mamma.com and its AD network which is comprised of third party publishers of search queries and advertisers who generate search results in an auction process that ranks the highest paid results to be delivered to the search query originator who completes the transaction by "clicking" on a desired result (the "AD Network"), (Mamma.com and AD Network collectively referred to as the "Mamma Unit") for a total consideration of \$5 million plus interest (the "Transaction").

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Subject to the terms of the Asset Purchase Agreement, the Company has sold its Mamma Unit for \$5 million to be paid in equal monthly instalments of \$200,000 over 25 months (“Payments”) to the Purchaser. The first Monthly Payment was due on September 15, 2009 and, subject to adjustments pursuant to the Asset Purchase Agreement, the last Monthly Payment shall be payable on September 15, 2011. Interest shall accrue from the date of purchase on a monthly basis on the balance of the purchase price and any other amount payable under the Asset Purchase Agreement at a nominal interest rate of 4% compounded monthly and payable no later than 30 days after the date of the last Monthly Payment. Should the Purchaser make a Monthly Payment of less than \$200,000, the Purchaser shall pay an amount equal to the difference between \$200,000 and the actual amount of the Monthly Payment made by the Purchaser within 90 days of the date that such Monthly Payment was made to the Company. The shortfall amount shall bear interest at a rate of 4% per annum compounded monthly and shall be payable no later than 30 days after the date of the last Monthly Payment. If the Purchaser fails to perform or observe any one of its obligations under the Asset Purchase Agreement including, without limitation, in the event of (i) a shortfall amount equal to or more than \$50,000 becoming due and payable, or (ii) a shortfall amount remaining unpaid by the Purchaser at the end of the 90-day period, the Purchaser be considered to be in default of the Asset Purchase Agreement and the Company may immediately terminate the Asset Purchase Agreement. Furthermore, after having given notice, the Company may on its absolute discretion, enter the premises where the Purchased Assets are located and take immediate possession of them.

Pursuant to the terms of the agreement concluded on June 30, 2009, the purchaser was to pay 25 equal monthly instalments of \$200,000, beginning on September 15, 2009. Interest at the rate of 4% (effective rate at 13.6%), compounded monthly, was to be calculated on the outstanding balance of sale and was payable 30 days after all principal payments were completed. Pursuant to an amended agreement signed on November 12, 2009, the payment terms were changed from 25 to 36 equal monthly instalments of the greater of \$100,000 or 85% of the revenues at an annual interest rate of 13.6%, compounded monthly, and calculated on the outstanding balance of sale. The remaining balance will be payable at the end of the 36-month period. That change had no impact on the fair value of the balance of sale receivable initially recorded. On June 30, 2009, an amount of \$4,447,230, which represents the fair value at the transaction date, was booked as Balance of sale receivable. The net book value of the assets sold was nil. As at December 31, 2009, the total transaction fees amounted to \$299,441, resulting in a net gain on disposal of assets amounting to \$4,147,789.

There can be no assurance that the purchaser will not be in default, or that in the case of repossession the value of the assets can be maintained by operating the asset, or that the asset can be re-sold.

Goodwill may be written-down in the future.

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate impairment may have occurred. Management monitors goodwill for impairment by considering estimates including discount rate, future growth rates, amounts and timing of estimated future cash flows, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the goodwill. Consequently, our goodwill, which amounts to approximately \$3.4M as at December 31, 2009, may be written-down in the future which could adversely affect our financial position.

Long-lived assets may be written-down in the future.

The Company assesses the carrying value of its long-lived assets, which include property and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. Management monitors long-lived assets for impairment by considering estimates including discount rate, future growth rates, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the long-lived assets. Consequently, our

long-lived assets, which amount to approximately \$0.5M as at December 31, 2009, may be written-down in the future.

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Security breaches and privacy concerns may negatively impact our business.

Consumer concerns about the security of transmissions of confidential information including customer profiling over public telecommunications facilities is a significant barrier to increased electronic commerce and communications on the Internet that are necessary for growth of the Company's business. Many factors may cause compromises or breaches of the security systems we use or other Internet sites use to protect proprietary information, including advances in computer and software functionality or new discoveries in the fields of cryptography and processor design. A compromise of security on the Internet would have a negative effect on the use of the Internet for commerce and communications and negatively impact our business. Security breaches of their activities or the activities of their customers and sponsors involving the storage and transmission of proprietary information, such as credit card numbers, may expose our operating business to a risk of loss or litigation and possible liability. We cannot assure you that the measures in place are adequate to prevent security breaches.

Our business is subject to a variety of U.S. and foreign laws that could subject us to claims or other remedies based on the nature and content of the information searched or displayed by our products and services, and could limit our ability to provide information regarding regulated industries and products.

The laws relating to the liability of providers of online services for activities of their users are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, invasion of privacy and other data protection claims, tort, unlawful activity, copyright or trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted or the content generated by our users. Increased attention focused on these issues and legislative proposals could harm our reputation or otherwise affect the growth of our business.

The application to us of existing laws regulating or requiring licenses for certain businesses of our advertisers, including, for example, distribution of pharmaceuticals, adult content, financial services, alcohol or firearms and online gambling, can be unclear. Existing or new legislation could expose us to substantial liability, restrict our ability to deliver services to our users, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations.

Several other federal laws could have an impact on our business. Compliance with these laws and regulations is complex and may impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for listing or linking to third-party Web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Children's Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In addition, the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Any failure on our part to comply with these regulations may subject us to additional liabilities.

Changes in key personnel, labour availability and employee relations could disrupt our business.

Our success is dependent upon the experience and abilities of our senior management and our ability to attract, train, retain and motivate other high-quality personnel, in particular for our technical and sales teams. There is significant competition in our industries for qualified personnel. Labour market conditions generally and additional companies entering industries which require similar labour pools could significantly affect the availability and cost of qualified personnel required to meet our business objectives and plans. There can be no assurance that we will be able to retain our existing personnel or that we will be able to recruit new personnel to support our business objectives and plans. Currently, none of our employees are unionized. There can be no assurance, however, that a collective bargaining unit

will not be organized and certified in the future. If certified in the future, a work stoppage by a collective bargaining unit could be disruptive and have a material adverse effect on us until normal operations resume.



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Strategic acquisitions and market expansion present special risks.

A future decision to expand our business through acquisitions of other businesses and technologies presents special risks. Acquisitions entail a number of particular problems, including (i) difficulty integrating acquired technologies, operations, and personnel with the existing businesses, (ii) diversion of management's attention in connection with both negotiating the acquisitions and integrating the assets as well as the strain on managerial and operational resources as management tries to oversee larger operations, (iii) exposure to unforeseen liabilities relating to acquired assets, and (iv) potential issuance of debt instruments or securities in connection with an acquisition possessing rights that are superior to the rights of holders of our currently outstanding securities, any one of which would reduce the benefits expected from such acquisition and/or might negatively affect our results of operations. We may not be able to successfully address these problems. We also face competition from other acquirers, which may prevent us from realizing certain desirable strategic opportunities.

We do not plan to pay dividends on the Common Shares.

The Company has never declared or paid dividends on its shares of Common Shares. The Company currently intends to retain any earnings to support its working capital requirements and growth strategy and does not anticipate paying dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

Rapidly evolving marketplace and competition may adversely impact our business.

The markets for our products and services are characterized by (i) rapidly changing technology, (ii) evolving industry standards, (iii) frequent new product and service introductions, (iv) shifting distribution channels, and (v) changing customer demands. The success of the Company will depend on its ability to adapt to its rapidly evolving marketplaces. There can be no assurance that the introduction of new products and services by others will not render our products and services less competitive or obsolete. We expect to continue spending funds in an effort to enhance already technologically complex products and services and develop or acquire new products and services. Failure to develop and introduce new or enhanced products and services on a timely basis might have an adverse impact on our results of operations, financial condition and cash flows. Unexpected costs and delays are often associated with the process of designing, developing and marketing enhanced versions of existing products and services and new products and services. The market for our products and services is highly competitive, particularly the market for Internet products and services which lacks significant barriers to entry, enabling new businesses to enter this market relatively easily. Competition in our markets may intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with the Company's products and services. Many of our current and potential competitors have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for products and services down and such price reductions may reduce our revenues.

To the extent that some of our revenues and expenses are paid in foreign currencies, and currency exchange rates become unfavourable, we may lose some of the economic value in U.S. dollar terms.

Although we currently transact a majority of our business in U.S. dollars, as we expand our operations, more of our customers may pay us in foreign currencies. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. This could have a negative impact on our reported operating results. We do not currently engage in hedging strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures to mitigate this risk. If we determine to initiate such hedging activities in the future, there is no

assurance these activities will effectively mitigate or eliminate our exposure to foreign exchange fluctuations. Additionally, such hedging programs would expose us to risks that could adversely affect our operating results, because we have limited experience in implementing or operating hedging programs. Hedging programs are inherently risky and we could lose money as a result of poor trades. For year ended December 31, 2009, the increase of the net results is \$160,000. For the continuing operations, the revenues are mostly in US currency and most of the expenses are paid in foreign currencies.

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Higher inflation could adversely affect our results of operations and financial condition.

We do not believe that the relatively moderate rates of inflation experienced in the United States and Canada in recent years have had a significant effect on our revenues or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which we might transact business, we do not believe that such rates have had a material effect on our results of operations, financial condition and cash flows. For the next twelve months inflationary pressures are not anticipated, nevertheless high inflation could have a material, adverse effect on the Company's results of operations, financial condition and cash flows, if it were to occur.

Risks related to the economic environment.

The activities of Copernic are subject to the influence of the general economic environment. We believe that the current difficult economic situation has negatively affected business activities amongst customers of Copernic and, consequently the demand for our products in 2009. Management continues to focus on the distribution network and corporate sales to reduce its exposure to the less than favourable economy. However there are no assurances that the economic situation will improve in the short term or that management's offset programs will be successful.

ITEM 4. INFORMATION ON THE COMPANY

GENERAL INFORMATION

The legal name of the Company is Copernic Inc. and the Company operates under the commercial name Copernic. The Company was incorporated on July 5, 1985, pursuant to the Business Corporations Act (Ontario), promulgated under the laws of the Province of Ontario, Canada. The Company's principal executive officers are located at 360 Franquet Street, Suite 60, Sainte-Foy, Quebec, Canada G1P 4N3.

The Company maintains its registered office c/o Fasken Martineau DuMoulin LLP, Toronto Dominion Bank Tower, P.O. Box 20, Suite 4200, 66 Wellington Street West, Toronto-Dominion Centre, Toronto, Ontario, M5K 1N6, Canada.

RECENT EVENTS

Cost Reduction Plan

In Q4 2009, the Company continued to execute its cost reduction plan announced at the end of Q1 2008. Total expenses in 2009, excluding write-downs, termination costs and restructuring costs, were at \$4,486,484 compared to \$6,013,570 in 2008. Total expenses in Q4 2009, excluding write-downs, gain on disposal, termination costs and restructuring costs, were at \$1,118,473 compared to \$1,100,097 in Q4 2008.

In addition, the Company has closed its Montreal office in Q1 2009 and concentrated all its activities in Quebec City.

The total cost of this restructuring which includes termination costs, recruiting fees, lease termination costs and moving expenses, was estimated at approximately \$150,000. In 2008, the Company recorded \$101,012 of restructuring costs. For 2009, an amount of \$33,677 was recorded.

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Nomination of Officers

Jean-Rock Fournier, Vice-President Finance since the beginning of Q1 2009, based in Quebec City, has assumed the duties of Chief Financial Officer (CFO) effective March 31, 2009. In addition, since November 12, 2009, Jean-Rock Fournier has assumed responsibility for the operations of the Company as Executive Vice-President.

Notice from NASDAQ

On June 16, 2008 a notice from NASDAQ Listing Qualifications was received by the Company. The notice stated that for the last 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Marketplace Rule 4310(c)(4) (the "Rule"). Therefore, in accordance with Marketplace Rule 4310(c)(8)(D), the Company was provided 180 calendar days, or until December 15, 2008 to regain compliance.

If, at any time before December 15, 2008, the bid price of the Company's common stock closed at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ Staff would provide written notification that it complied with the Rule. If compliance with this Rule could not be demonstrated by December 15, 2008, NASDAQ Staff would determine whether the Company meets The NASDAQ Capital Market initial listing criteria as set forth in Marketplace Rule 4310(c), except for the bid price requirement. If it met the initial listing criteria, NASDAQ Staff would notify the Company that it has been granted an additional 180 calendar day compliance period. If the Company was not eligible for an additional compliance period, NASDAQ Staff would provide written notification that the Company's securities would be delisted. At that time, the Company could appeal NASDAQ Staff's determination to delist its securities to a Listing Qualifications Panel (the "Panel"). These circumstances could adversely impact trading in the Company's Common Shares and could also adversely affect our ability to access capital.

On October 22, 2008, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing.

The notice stated: "Given these extraordinary market conditions, NASDAQ has determined to suspend enforcement of the bid price and market value of publicly held shares requirements through Friday, January 16, 2009. In that regard, on October 16, 2008, NASDAQ filed an immediately effective rule change with the Securities and Exchange Commission to implement the suspension. As a result, all companies presently in a bid price or market value of publicly held shares compliance period will remain at that same stage of the process and will not be subject to being delisted for these concerns. These rules will be reinstated on Monday, January 19, 2009 and the first relevant trade date will be Tuesday, January 20, 2009.

Since your company had 59 calendar days remaining in its compliance period as of October 16, it will, upon reinstatement of the rules, still have this number of days, or until March 19, 2009, to regain compliance. The company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days".

On December 19, 2008, NASDAQ issued an issuer alert #2008-005A stating "Given the continued extraordinary market conditions, NASDAQ is extending the suspension of the bid price and market value of publicly held shares requirements. Enforcement of these rules is scheduled to resume on Monday, April 20, 2009. Any company in the compliance process for a bid price or market value of publicly held shares concern will continue to be "frozen" at the same stage of the process until the end of the suspension. However, a company could be delisted for other reasons during the suspension. NASDAQ staff will contact each company affected by this extension and notify those that regain compliance with these requirements during the suspension. NASDAQ will continue to monitor closely these circumstances." The Company had 59 calendar days remaining in its compliance period, and therefore, with the new

extension, it has until June 18, 2009 to effect compliance.

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On March 18, 2009, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing. The NASDAQ Notice discussed a proposed rule change to extend until July 19, 2009, the temporary suspension of the continued listing requirements related to bid price and market value of publicly held shares for listing on NASDAQ Stock Market. Since Copernic had 59 calendar days remaining in its compliance period, it will, upon reinstatement of the rules, still have this number of days, or until September 18, 2009 to regain compliance. The Company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days.

On July 13, 2009 the Company received another letter from NASDAQ extending the temporary suspension, which means that the Company has until September 30, 2009 to comply with the minimum bid requirement for continued listing. Based on discussions with the SEC, NASDAQ does not expect any further extensions of the suspension. In order to satisfy NASDAQ Capital Market's minimum bid price requirement for continued listing, the Company's shares must trade at the minimum bid price requirement for a minimum of ten consecutive trading days. Therefore the Company announced on July 21 that it intends to seek shareholders' approval to complete a share consolidation (the "Consolidation" also known as reverse stock split) on the basis of one (1) post consolidation common share for every two (2) to ten (10) pre-consolidation shares.

During a special meeting of the shareholders on September 11, 2009, the Consolidation of issued and outstanding shares was approved effective as of September 14, 2009. The Consolidation factor was 7:1. No fractional shares were issued and those shareholders who otherwise would have been entitled to receive fractional shares had their post-consolidation shareholdings rounded up to the next whole common share. The purpose of the Consolidation was to allow the Company to achieve compliance with the NASDAQ Capital Market's minimum bid requirement for continued listing. Prior to the completion of the Consolidation, the Company had 14,637,531 common shares outstanding, and upon completion of the Consolidation, the Company had 2,091,437 common shares outstanding.

All information related to shares, stock options and warrants in this document reflects this Consolidation.

As at December 31, 2009, the Company's closing stock price was \$2.70.

Granting, Exercising and Cancellation of Stock Options

On March 4, 2009, the Company granted 3,571 stock options to a new officer, at an exercise price of \$1.33 expiring in five years.

On June 17, 2009, the Company granted 17,856 stock options to directors at an exercise price of \$2.17 expiring in five years.

On June 30, 2009, the Company granted 8,571 stock options to officers and employees at an exercise price of \$2.03 expiring in five years.

On November 13, 2009 the Company granted 15,000 stock options to an officer at an exercise price of \$1.98 expiring in five years.

As at December 31, 2009, 23,737 stock options were forfeited or expired.

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Discontinued Operations

On May 14, 2009, the Company announced that it had signed an agreement with Empresario, a privately owned digital media network based in Chicago, Illinois, for the disposal of the assets of Mamma.com and its AD Network (search / media segment) for \$5,000,000. On June 17, 2009, at the Company's Annual General Meeting and Special Shareholders' Meeting, the shareholders approved the proposed transaction which was officially concluded on June 30, 2009. Prior period results have been reclassified to conform with the presentation required for discontinued operations.

RECENT AGREEMENT

Sale of Mamma.com

On May 14, 2009, the Company announced that it had signed an agreement with Empresario, a privately owned digital media network based in Chicago, Illinois, for the disposal of the assets of Mamma.com and its AD Network (search / media segment) for \$5,000,000. On June 17, 2009, at the Company's Annual General Meeting and Special Shareholders' Meeting, the shareholders approved the proposed transaction which was officially concluded on June 30, 2009. Prior period results have been reclassified to conform with the presentation required for discontinued operations.

SUBSEQUENT EVENTS

As announced on February 12, 2010, Copernic Inc. amended the agreement signed on November 12, 2009, pursuant to which the Company will issue, by way of private placement, 500,000 shares at \$4.00 per share for a total proceeds of \$2,000,000.

The amended agreement also proposes a purchase, by Copernic, of 70.1% of the common shares outstanding of Sunbay Canada Corporation ("Sunbay"), a company registered in Ontario. The Board of Directors of Sunbay will be comprised of three members elected by Copernic, one of which will be Mr. Marc Ferland, Chief Executive Officer of Copernic who will also hold this position for Sunbay. In addition, Newlook Industries Corporation and Sunbay Energy Corporation will each elect a representative. Based on this amended agreement, Copernic will issue 150,000 common shares in exchange of its equity position in Sunbay valued at \$600,000 and 450,000 shares for cash of \$1,400,000. The closing is scheduled no later than April 30, 2010.

As announced on March 26, 2010, Copernic Inc. entered into a letter of intent with Fanotech Manufacturing Group with respect to the proposed acquisition by Copernic of the assets of Fanotech Manufacturing Group comprised of Fanotech Enviro Inc., Fanotech Waste Equipment Inc. and 1099958 Ontario Limited currently operating as FanoCore. The purchase price of approximately CND\$ 3.5M. will be based on the Net Book Value as at March 31, 2010, estimated at CND\$ 1.5M and 5 years of cumulative EBITDA estimated at CND\$ 2M. The purchase price will be payable by the issuance to the vendor of 320,000 common shares of Copernic at US\$ 6.00 / share for a total value of \$1,920,000 and the remaining balance will be payable in cash in an amount approximating CND\$ 1.5M subject to final determination of purchase price. The transaction is scheduled to close at the end of the second quarter and is subject to the receipt by Copernic of audited financial statements of Fanotech Manufacturing Group, satisfactory due diligence and board, shareholders and regulatory approvals.

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ACQUISITIONS, DIVESTITURES AND DISCONTINUED OPERATIONS

Acquisition of Copernic Technologies Inc.

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

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

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

On May 31, 2006, Copernic Technologies Inc. was wound up into the Company. The wind-up allows the Company to use carry forward tax losses where needed.

In 2006, the purchase price allocation was adjusted to reflect additional assets and liabilities assumed by the Company. These adjustments resulted by increasing accounts receivable by \$480,091, liabilities by \$22,286 and consequently decreasing original goodwill by \$457,805. The increase in accounts receivable, which was not accounted for in the audited closing balance sheet of Copernic Technologies Inc. at the date of acquisition, was due to revenue recognition adjustment related to a specific contract that existed prior to the date of the transaction.

In 2006, \$379,382 was received by the Company from the sellers of Copernic Technologies Inc. to compensate for a reduction of research and development tax credits prior to the acquisition date, the purchase price and goodwill were then reduced accordingly.

Discontinued Digital Arrow LLC and High Performance Broadcasting Inc. ("Digital Arrow") Operations

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

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

Digital Arrow, which the Company acquired on June 10, 2004, was a privately held marketing company that was engaged in the distribution of online, opt-in e-mail marketing solutions via the Internet. In that acquisition, the Company's wholly-owned subsidiary, Mamma.com USA, Inc., entered into a Securities Purchase Agreement with Digital Arrow and their equity holders, pursuant to which Mamma.com USA, Inc. acquired all equity interests in Digital Arrow. The consideration for the acquisition, including costs directly related to the acquisition, consisted of \$1,264,210 in cash, net of cash acquired, and 90,000 of the Company's common shares. The fair value of the



Company shares issued to owners of Digital Arrow was determined to be \$8.23 per share. The operations of the business have been included in the Company's consolidated financial statements since June 1, 2004.

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This acquisition has been accounted for using the purchase method. The fair value of the net assets acquired was \$1,535,744, which with goodwill of \$556,196, resulted in a total purchase price of \$2,091,940. From this purchase price, \$740,782 was paid by issuance of the Company's common shares, \$86,948 for cash acquired at the transaction for a cash paid net of cash acquired of \$1,264,210. Digital Arrow LLC and High Performance Broadcasting, Inc. have since been liquidated.

## BUSINESS OVERVIEW

Copernic Inc. specializes in developing, marketing and selling cutting-edge search technology, providing innovative home and business software products and solutions for desktop, web and mobile users, through its online property [www.copernic.com](http://www.copernic.com). With its award winning Copernic Desktop Search, the Company brings the power of a sophisticated, yet easy-to-use search engine to the user's PC. It allows for instant indexing of files, calendar, emails, email attachments and all other information stored anywhere on a PC hard drive.

The desktop search application won the CNET Editors' Choice Award, as well as the PC World Class award in 2005. In 2007, PC Pro, the UK's most respected IT magazine for professionals, and Micro Hebdo, one of France's most read IT magazines, each selected Copernic Desktop Search® 2.0 software search engine as the top desktop search tool. At the CTIA Wireless 2008® Copernic's Desktop Search Wireless Access won first prize for innovation in the enterprise solutions category. Also in 2008, Copernic Desktop Search® 3.0 (Home Edition) received the prestigious "Gizmo's Top Pick" award in the "Best Free Desktop Search Utility" category at Gizmo's popular Best-ever Freeware site. In 2009, Germany's Bilt magazine featured the privacy functions of Copernic Desktop Search® 3.0 (Home Edition) distributing over 800,000 copies.

In Q3 2008, the Company launched version 3.0 of its business-oriented desktop search product. The upgraded Copernic Desktop Search® ("CDS") Corporate Edition further increases its competitive edge by adding Intranet integration features and expanding its MS Outlook® search capabilities. CDS Professional Edition also specifically targets knowledge workers with features such as the indexing of Microsoft Outlook's calendar, tasks and notes. Some advanced search functions are now exclusive to the Professional and Corporate products: network drive indexing, "as you type" display of results, and saving of queries for frequently used searches. CDS Home Edition offers a unique competitive advantage with the new "One Search" feature which simultaneously searches the desktop and the Internet. Although the Home Edition is free to consumers, it does provide for contextual advertised sponsored banner ads based on search queries.

In Q1 2009, the Company launched a Desktop Search Product compatible with Lotus notes and a German language privacy version for the European market both designed to expand Copernic's served market.

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- a) Optimization of its web site, its most important distribution channel to increase the traffic and the conversion rate from visitors to customers;

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At the same time, the Company announced the availability of myCopernic TM on the Go! - the first service available from myCopernicTM personal search portal. myCopernic TM on the Go! offers the end-user an intelligent solution to search and access relevant information from virtually anywhere, using any internet enabled device or wireless handset.

The Company's traditional products are sold with one time software licenses while new products in the myCopernicTM search portal are sold with annual renewable subscription fees.

## PRINCIPAL MARKETS

Although we operate in the global on-line market, and now engage in the development and sale of information management and search solution products, the majority of our users and customers are concentrated in the U.S., Europe and Canada. Our total revenues in 2009 can be divided into several categories: search and graphic advertising, software licensing, customized development and maintenance support revenues. The following table gives a breakdown of the total revenues by category for the last five financial years. The operations of Copernic Technologies Inc. have been included since December 23, 2005.

| year | search and<br>graphic<br>advertising<br>US \$ | Software<br>Licensing<br>US \$ | Customized<br>Development<br>and<br>Maintenance<br>Support<br>US \$ |
|------|---|--------------------------------|---|
| 2009 | 640,103                                       | 574,536                        | 438,387   |
| 2008 | 5,606,383                                     | 951,022                        | 454,226   |
| 2007 | 7,354,709                                     | 415,263                        | 346,436   |
| 2006 | 8,024,972                                     | 957,488                        | 613,942   |
| 2005 | 9,426,772                                     | 6,671                          | 10,532  |

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SEASONALITY AND FLUCTUATION IN REVENUES

The Company is subject to seasonal fluctuations affecting its operations and results. Historically, the first and third quarters have shown significant decreases in search and graphic revenues, which the Company believes are respectively attributable to decreased advertising and Internet use during the post-Christmas lull and the Summer holiday season.

Although not seasonal, our software licensing revenues fluctuate from quarter to quarter based upon the quarters in which we obtain new agreements or existing agreements terminate.

MARKETING CHANNELS AND SALES METHODS

The Company maintains its own sales and marketing staff and has its own experienced direct sales force to address the new and evolving requirements of its target markets. Although the Company itself does not expend significant resources on public relations, the Company markets itself through on-line advertising, press releases, internally sponsored events and trade shows.

The Company solicits revenues by direct sales force, e-mail directly to the end client, or through specialized search engines through advertising agencies or network distribution business associates who mainly specialize in the online advertising market. Search listings are solicited either directly or through on-line marketing campaigns from the end client.

DEPENDENCE ON INTELLECTUAL PROPERTY AND OTHER MATTERS MATERIAL TO PROFITABILITY

We rely upon a combination of trade secret, copyright, trademark, patent and other laws to protect our intellectual property assets. We have entered into confidentiality agreements with our management and key employees with respect to such assets and limit access to, and distribution of, these assets and other proprietary information. However, the steps we take to protect our intellectual property assets may not be adequate to deter or prevent misappropriation. We may be unable to detect unauthorized uses of and take appropriate steps to enforce and protect our intellectual property rights. Although senior management believes that our services and products do not infringe on the intellectual property rights of others, we nevertheless are subject to the risk that such a claim may be asserted in the future. Any such claims could damage our business.

GOVERNMENT REGULATION

The laws relating to the liability of providers of online services for activities of their users are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, invasion of privacy and other data protection claims, tort, unlawful activity, copyright or trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted or the content generated by users of other services similar to ours. Increased attention focused on these issues and legislative proposals could harm our reputation or otherwise affect the growth of our business.

The application to us of existing laws regulating or requiring licenses for certain businesses of our advertisers, including, for example, distribution of pharmaceuticals, adult content, financial services, online gambling, alcohol or firearms, can be unclear. Existing or new legislation could expose us to substantial liability, restrict our ability to deliver services to our users, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations.



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Several other federal laws could have an impact on our business. Compliance with these laws and regulations is complex and may impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for listing or linking to third-party web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Children's Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In addition, the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Any failure on our part to comply with these and similar regulations in other jurisdictions may subject us to additional liabilities.

## COMPETITION

The Company primarily competes in the areas of on-line advertising and software licensing which includes sales of licenses, customization and maintenance support. The market for these services is in a constant state of flux and competition is intense.

The Company faces intense competition expects this competition will continue to intensify. The Company's markets are subject to rapid changes in technology and marketing strategies and the Company is significantly affected by new product introductions and other market activities of its existing and potential competitors. The Company believes the principal competitive factors in this market are name recognition, product performance and functionality, ease of use, size of the Web index, user traffic, the speed with which search results return and the relevance of results, pricing and quality of customer support. Many of the Company's current and potential competitors and software licensing, includes Google, Microsoft, Yahoo and X1 have significant operating histories, larger customer bases, greater brand name recognition, and significantly greater financial, marketing and other resources which give them a competitive advantage.

The markets for our products and services are characterized by (i) rapidly changing technology, (ii) evolving industry standards, (iii) frequent new product and service introductions, (iv) shifting distribution channels, and (v) changing customer demands. The success of the Company will depend on its ability to adapt to its rapidly evolving marketplaces. There can be no assurance that the introduction of new products and services by others will not render our products and services less competitive or obsolete. We expect to continue spending funds in an effort to enhance already technologically complex products and services and develop or acquire new products and services. Failure to develop and introduce new or enhanced products and services on a timely basis might have an adverse impact on our results of operations, financial condition and cash flows. Unexpected costs and delays are often associated with the process of designing, developing and marketing enhanced versions of existing products and services and new products and services. The market for our products and services is highly competitive. Competition in our markets may intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with the Company's products and services. Many of our current and potential competitors have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for products and services down and such price reductions may reduce our revenues.

## ORGANIZATIONAL STRUCTURE

On May 31, 2004, the wholly owned subsidiary, Mamma.com Enterprises Inc. was wound up into the Company. The transaction has allowed the Company to use carry forward tax losses. On May 31, 2006, the wholly owned subsidiary, Copernic Technologies Inc. which was acquired on December 22, 2005, was wound up into the Company. During 2007 and 2008, a few non-active companies were wound up into the Company. As at March 26, 2010 the Company

had an active wholly-owned subsidiary, Mamma.com USA, Inc.



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Until March 31, 2009, the Company had leased two office locations: One in Quebec City, Canada with 13,000 square feet and one in Montreal, Canada with 3,400 square feet. The Montreal office was closed on March 31, 2009.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Copernic Inc. for the three years ended December 31, 2009, 2008 and 2007 should be read in conjunction with its consolidated financial statements and the related notes. All statements in the following discussion, which are not reports of historical information or descriptions of current accounting policy, are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this Management's Discussion and Analysis of Financial Condition and Results of Operations cautionary note. It should be noted that the consolidated financial statements summarize operating details and gains on disposal of assets as related to the sale of Mamma.com and its AD Network while the 2008 Annual Report includes operating details of the assets. For ease of comparison, the consolidated financial statements of 2008 have been re-casted.

The Company's consolidated financial statements are reported in US dollars and have been prepared in accordance with generally accepted accounting principles as applied in Canada ("Canadian GAAP"). As a registrant with the Securities and Exchange Commission in the United States, the Company is required to reconcile its financial results for significant measurement differences between Canadian GAAP and generally accepted accounting principles as applied in the United States ("U.S. GAAP") as they specifically relate to the Company as described in Note 23 to its consolidated financial statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations is dated March 26, 2010.

The Company's functional currency is the U.S. dollar. All amounts included herein are expressed in U.S. dollars, unless specified otherwise.

Business Overview

Copernic Inc. specializes in developing, marketing and selling cutting-edge search technology, providing innovative home and business software products and solutions for desktop, web and mobile users, through its online property [www.copernic.com](http://www.copernic.com). With its award winning Copernic Desktop Search, the Company brings the power of a sophisticated, yet easy-to-use search engine to the user's PC. It allows for instant indexing of files, calendar, emails, email attachments and all other information stored anywhere on a PC hard drive.

The desktop search application won the CNET Editors' Choice Award, as well as the PC World Class award in 2005. In 2007, PC Pro, the UK's most respected IT magazine for professionals, and Micro Hebdo, one of France's most read IT magazines, each selected Copernic Desktop Search® 2.0 software search engine as the top desktop search tool. At the CTIA Wireless 2008® Copernic's Desktop Search Wireless Access won first prize for innovation in the enterprise solutions category. Also in 2008, Copernic Desktop Search® 3.0 (Home Edition) received the prestigious "Gizmo's Top Pick" award in the "Best Free Desktop Search Utility" category at Gizmo's popular Best-ever Freeware site. In 2009, Germany's Bilt magazine featured the privacy functions of Copernic Desktop Search® 3.0 (Home Edition) distributing over 800,000 copies.

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## Recent Events

### Cost Reduction Plan

In Q4 2009, the Company continued to execute its cost reduction plan announced at the end of Q1 2008. Total expenses in 2009, excluding write-downs, termination costs and restructuring costs, were at \$4,486,484 compared to \$6,013,570 in 2008. Total expenses in Q4 2009, excluding write-downs, gain on disposal, termination costs and restructuring costs, were at \$1,118,473 compared to \$1,100,097 in Q4 2008.

In addition, the Company has closed its Montreal office in Q1 2009 and concentrated all its activities in Quebec City.



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The total cost of this restructuring which includes termination costs, recruiting fees, lease termination costs and moving expenses, was estimated at approximately \$150,000. In 2008, the Company recorded \$101,012 of restructuring costs. For 2009, an amount of \$33,677 was recorded.

### Nomination of Officers

Jean-Rock Fournier, Vice-President Finance since the beginning of Q1 2009, based in Quebec City, has assumed the duties of Chief Financial Officer (CFO) effective March 31, 2009. In addition, since November 12, 2009, Jean-Rock Fournier has assumed responsibility for the operations of the Company as Executive Vice-President.

### Notice from NASDAQ

On June 16, 2008 a notice from NASDAQ Listing Qualifications was received by the Company. The notice stated that for the last 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Marketplace Rule 4310(c)(4) (the "Rule"). Therefore, in accordance with Marketplace Rule 4310(c)(8)(D), the Company was provided 180 calendar days, or until December 15, 2008 to regain compliance.

If, at any time before December 15, 2008, the bid price of the Company's common stock closed at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ Staff would provide written notification that it complied with the Rule. If compliance with this Rule could not be demonstrated by December 15, 2008, NASDAQ Staff would determine whether the Company meets The NASDAQ Capital Market initial listing criteria as set forth in Marketplace Rule 4310(c), except for the bid price requirement. If it met the initial listing criteria, NASDAQ Staff would notify the Company that it has been granted an additional 180 calendar day compliance period. If the Company was not eligible for an additional compliance period, NASDAQ Staff would provide written notification that the Company's securities would be delisted. At that time, the Company could appeal NASDAQ Staff's determination to delist its securities to a Listing Qualifications Panel (the "Panel"). These circumstances could adversely impact trading in the Company's Common Shares and could also adversely affect our ability to access capital.

On October 22, 2008, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing.

The notice stated: "Given these extraordinary market conditions, NASDAQ has determined to suspend enforcement of the bid price and market value of publicly held shares requirements through Friday, January 16, 2009. In that regard, on October 16, 2008, NASDAQ filed an immediately effective rule change with the Securities and Exchange Commission to implement the suspension. As a result, all companies presently in a bid price or market value of publicly held shares compliance period will remain at that same stage of the process and will not be subject to being delisted for these concerns. These rules will be reinstated on Monday, January 19, 2009 and the first relevant trade date will be Tuesday, January 20, 2009.

Since your company had 59 calendar days remaining in its compliance period as of October 16, it will, upon reinstatement of the rules, still have this number of days, or until March 19, 2009, to regain compliance. The company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days".

On December 19, 2008, NASDAQ issued an issuer alert #2008-005A stating "Given the continued extraordinary market conditions, NASDAQ is extending the suspension of the bid price and market value of publicly held shares requirements. Enforcement of these rules is scheduled to resume on Monday, April 20, 2009. Any company in the compliance process for a bid price or market value of publicly held shares concern will continue to be "frozen" at the

same stage of the process until the end of the suspension. However, a company could be delisted for other reasons during the suspension. NASDAQ staff will contact each company affected by this extension and notify those that regain compliance with these requirements during the suspension. NASDAQ will continue to monitor closely these circumstances.” The Company had 59 calendar days remaining in its compliance period, and therefore, with the new extension, it has until June 18, 2009 to effect compliance.

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On March 18, 2009, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing. The NASDAQ Notice discussed a proposed rule change to extend until July 19, 2009, the temporary suspension of the continued listing requirements related to bid price and market value of publicly held shares for listing on NASDAQ Stock Market. Since Copernic had 59 calendar days remaining in its compliance period, it will, upon reinstatement of the rules, still have this number of days, or until September 18, 2009 to regain compliance. The Company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days.

On July 13, 2009 the Company received another letter from NASDAQ extending the temporary suspension, which means that the Company has until September 30, 2009 to comply with the minimum bid requirement for continued listing. Based on discussions with the SEC, NASDAQ does not expect any further extensions of the suspension. In order to satisfy NASDAQ Capital Market's minimum bid price requirement for continued listing, the Company's shares must trade at the minimum bid price requirement for a minimum of ten consecutive trading days. Therefore the Company announced on July 21 that it intends to seek shareholders' approval to complete a share consolidation (the "Consolidation" also known as reverse stock split) on the basis of one (1) post consolidation common share for every two (2) to ten (10) pre-consolidation shares.

During a special meeting of the shareholders on September 11, 2009, the Consolidation of issued and outstanding shares was approved effective as of September 14, 2009. The Consolidation factor was 7:1. No fractional shares were issued and those shareholders who otherwise would have been entitled to receive fractional shares had their post-consolidation shareholdings rounded up to the next whole common share. The purpose of the Consolidation was to allow the Company to achieve compliance with the NASDAQ Capital Market's minimum bid requirement for continued listing. Prior to the completion of the Consolidation, the Company had 14,637,531 common shares outstanding, and upon completion of the Consolidation, the Company had 2,091,437 common shares outstanding.

All information related to shares, stock options and warrants in this document reflects this Consolidation.

As at December 31, 2009, the Company's closing stock price was \$2.70.

Granting, Exercising and Cancellation of Stock Options

On March 4, 2009, the Company granted 3,571 stock options to a new officer, at an exercise price of \$1.33 expiring in five years.

On June 17, 2009, the Company granted 17,856 stock options to directors at an exercise price of \$2.17 expiring in five years.

On June 30, 2009, the Company granted 8,571 stock options to officers and employees at an exercise price of \$2.03 expiring in five years.

On November 13, 2009 the Company granted 15,000 stock options to an officer at an exercise price of \$1.98 expiring in five years.

As at December 31, 2009, 23,737 stock options were forfeited or expired.

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### Discontinued Operations

On May 14, 2009, the Company announced that it had signed an agreement with Empresario, a privately owned digital media network based in Chicago, Illinois, for the disposal of the assets of Mamma.com and its AD Network (search / media segment) for \$5,000,000. On June 17, 2009, at the Company's Annual General Meeting and Special Shareholders' Meeting, the shareholders approved the proposed transaction which was officially concluded on June 30, 2009. Prior period results have been reclassified to conform with the presentation required for discontinued operations.

### Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. In doing so, management has to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In many cases, management reasonably has used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. Management bases its estimates on past experience and other assumptions that it believes are reasonable under the circumstances, and it evaluates these estimates on an ongoing basis. Management refers to accounting estimates of this type as critical accounting policies and estimates, which are discussed further below. Management has reviewed its critical accounting policies and estimates with its Board of Directors.

### Use of Estimates

Significant estimates in these financial statements include the allowance for doubtful accounts, recovery of future income taxes, goodwill and annual goodwill impairment test, useful lives and impairment of long-lived assets, stock-based compensation costs and determination of the fair value of the intangible assets on acquisitions. Each of these critical accounting policies is described in more detail below.

### Allowance for Doubtful Accounts

Judgments are made in the ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. The allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company's future results of operations could be adversely impacted.

The Company also recorded a provision for revenue adjustments in the same period as the related revenues are recorded. These estimates are based on historical analysis of credit memo data and other factors. If the historical data the Company uses to calculate these estimates does not properly reflect future uncollectible revenues, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be impacted.

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### Recovery of Future Income Taxes

Significant judgment is used in determining consolidated recovery of future income taxes. Uncertainties may arise with respect to the tax treatment of certain transactions. Although it is believed that estimates are reasonable, there is no certainty that the final tax outcome of these matters will not be different than that which is reflected in financial statements. Such differences could have a material effect on future income taxes in the period in which such determination is made.

### Goodwill and Annual Goodwill Impairment Test

Goodwill is evaluated for impairment annually on December 31 of each year or when events or changed circumstances indicate impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company to which goodwill relates exceeds its estimated fair value, the goodwill related to the Company is tested for impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. Management's determination of the fair value of the Company incorporates multiple inputs including discounted cash flow calculations, peer company price to earnings multiples, the Company's share price and assumptions that market participants would make in valuing the Company. Other assumptions include levels of economic capital, future business growth, earnings projections and weighted average cost of capital used for purpose of discounting. Decreases in the amount of economic capital allocated, decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause the fair value to decrease. The Company completed its annual goodwill assessment as of December 31, 2009. As the results in 2009 are in line with the forecast and as assumptions used for the impairment test in 2008 remain the same, the goodwill assessment was completed without any impairment. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge in the future.

### Useful Lives and Impairment of Long-lived Assets

The Company assesses the carrying value of its long-lived assets which include property and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. Useful lives of long-lived assets are regularly reviewed for their appropriateness. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of its estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value. Management assesses long-lived assets for impairment using estimates including discount rate, future growth rates, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the long-lived assets, thereby possibly requiring an impairment charge in the future.

### Stock-based Compensation Costs

In determining the fair value of stock options and warrants issued to employees and service providers, using the Black-Scholes option pricing model, the Company must make estimates of the forfeiture rate, the period in which the holders of the options and warrants will exercise the options and warrants and the volatility of the Company's stock over that same period. Different estimates would result in different amounts of compensation being recorded in the financial statements.

### Revenue Recognition



Search advertising, graphic advertising, software licensing, subscription fees, customized development and maintenance support revenues are recognized when services are rendered, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is considered probable, and fees are not subject to forfeiture, refund or other concessions.

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With respect to search advertising and graphic advertising revenues, insertion orders or signed contracts are generally used as evidence of an arrangement. Revenues are recognized in accordance with EIC-123, Reporting Revenue Gross as a Principal Versus Net as an Agent.

Software licensing agreements are recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable and vendor-specific evidence of an arrangement exists to allocate the total fee to the different elements of an arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by management, if it is probable that the price, once established, will not change before market introduction.

Revenues from myCopernic™ on the Go! service are generated by a yearly subscription and are amortized over a twelve-month period.

Revenues from maintenance support for licenses previously sold and implemented are recognized rateably over the term of the contract.

Revenues from customized development, not considered as part of the implementation of software licenses, are recognized as the services are provided.

Amounts received in advance of the delivery of products or performances of services are classified as deferred revenue.

Estimates of collection likelihood are based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not probable, management defers the fee and recognizes revenues at the time collection becomes probable, which is generally upon receipt of cash.

### Recent Accounting Changes

#### Changes Affecting 2008

##### CICA Section 1535 - Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 – Capital Disclosures. The new accounting standard requires disclosure of information about an entity’s objectives, policies, and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any capital requirements.

This Handbook Section is effective for interim and annual periods beginning on or after October 1, 2007. The Company has adopted this new Section in its first quarter of 2008.

##### CICA Section 3862 – Financial Instruments – Disclosures

##### CICA Section 3863 – Financial Instruments – Presentation

In December 2006, the CICA issued Handbook Section 3862 and 3863 that provide additional guidance regarding disclosure of the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. These Handbook Sections are also effective for interim and annual periods beginning on or after October 1, 2007. The Company has adopted these new Sections in its first quarter of 2008.



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### EIC-169, Determining Whether a Contract is Routinely Denominated in a Single Currency

Issued on January 8, 2008, EIC-169 provides guidance on how to define or apply the term “routinely denominated in commercial transactions around the world” as discussed in Section 3855 when assessing contracts for embedded foreign currency derivatives. It also determines the factors that can be used to determine whether a contract for the purchase or sale of a non-financial item such as a commodity is routinely denominated in a particular currency in commercial transactions around the world. The accounting treatment of this Abstract should be applied retrospectively to embedded foreign currency derivatives in host contracts that are not financial instruments accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after March 15, 2008. The adoption of this Abstract did not have any impact on the Company’s financial statements.

### Changes Affecting 2009

#### CICA Section 3064 - Goodwill and Intangible Assets

Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. In addition, Section 1000, “Financial Statement Concepts” was amended to clarify the criteria for recognition of an asset. Finally, once an entity adopts this new section it may no longer apply the guidance in Emerging Issues Committee Abstract No. 27, “Revenues and Expenditures during the Pre-Operating Period”. This section applies to interim and annual consolidated financial statements relating to fiscal year beginning on or after October 1, 2008. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets and it reinforces the approach under which assets are recorded only if they satisfy the definition of an asset and the recognition criteria for an asset. The adoption of this section did not have a significant impact on the Company’s consolidated financial statements.

#### EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The Company has adopted that new guidance in the first quarter of 2009. The application of this new standard had no impact on the Company’s operating results or financial position.

#### CICA, Amendments to Section 3862, Financial Instruments – Disclosures

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, that are effective for the Company’s financial statements for the year ended December 31, 2009. The amendments are intended to enhance disclosure regarding fair value measurement and liquidity risk of financial instruments. The additional disclosures are presented in Note 21.

### Future Accounting Changes

#### CICA Section 1582 – Business Combinations

Section 1582, “Business Combinations” replaces Section 1581 of the same title. The Section establishes new standards for the accounting for a business combination. This Section constitutes the GAAP equivalent to the corresponding International Financial Reporting Standards (“IFRS”). This Section shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning

on or after January 1, 2011 and the Company will adopt this new Section as of such date upon its conversion to IFRS. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements and on future business combinations.

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CICA Section 1601 - Consolidated Financial Statements and CICA Section 1602 - “Non-Controlling Interests”

Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests” together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections constitute the GAAP equivalent to the corresponding IFRS. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and the Company will adopt these new Sections as of such date upon its conversion to IFRS. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

EIC-175 – Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Account Standards Update (ASU) 2009-14; (2) provide guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Company’s fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

CICA Section 1506 - Accounting Changes

In July 2009, the CICA amended Handbook Section 1506, Accounting Changes, to exclude from its scope changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting. The amendments apply to interim and annual financial statements relating to years beginning on or after July 1, 2009. The Company does not expect that adoption of these amendments will have a significant impact on the consolidated financial statements.

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Results from Continuing Operations

Revenues

2009 as compared to 2008

Revenues for 2009 were \$1,653,026 compared to \$ 2,218,264 in 2008, a decrease of 25%.

In 2009 search revenues decreased by \$172,911 or 21% to \$640,103 from \$813,014 last year. The variance is explained by reduced traffic.

Software licensing went from \$951,023 in 2008 to \$574,536 in 2009, a decrease of \$376,486 or 39.5%. The decrease is explained by the importance of corporate sales in 2008 versus the poor economic conditions experienced in 2009 which resulted in no corporate sales in that period.

In 2009, customized development and maintenance support amounted to \$438,387 compared to \$454,227 in 2008, a decrease of \$15,841.

2008 as compared to 2007

In 2008, the Company generated revenues of \$2,218,264 compared to \$1,702,256 for the previous year, an increase of 30%.

In 2008 search revenues decreased by \$127,543 or 13.5% to \$813,014 from \$940,557 for the previous year. The variance is explained by reduced traffic.

Software licensing stood at \$951,023 in 2008 compared to \$415,263 in 2007, an increase of \$535,760. The increase is explained by the sales of a new product 'CDS Corporate Edition' in 2008. Also, the launch of the new CDS Pro version in late Q3 2008 started having an impact on Q4 2008 results.

Customized development and maintenance support revenues generated \$454,227 in 2008 compared to \$346,436 for the same period the previous year, an increase of \$107,791 or 31.1%.

Cost of Revenues

Cost of revenues is essentially bandwidth costs to deliver our services.

2009 as compared to 2008

For the fiscal year ended December 31, 2009 cost of revenues represented \$62,304 or 9.5% of search revenues compared to \$105,338 or 13% of search revenues last year. The decrease is explained by the opening of two (2) new data centers in Canada which were run in parallel with the ones in the US. In April 2008, our US data centers were shutdown and bandwidth costs related to these locations were eliminated in July 2008.

2008 as compared to 2007

For the fiscal year ended December 31, 2008 cost of revenues represented \$105,338 or 13% of search revenues compared to \$106,511 or 11% of search revenues for the same period last year.





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### Marketing, Sales and Services

Marketing, sales and services consist primarily of salaries, commissions and related personnel expenses for our sales force, advertising and promotional expenses, as well as the provision for doubtful accounts.

#### 2009 as compared to 2008

For the year ended December 31, 2009, marketing, sales and services expenses stood at \$625,243 compared to \$386,486 in 2008, an increase of \$238,757 or 61%. The variance is mainly explained by the fact that some of the employees who were working for the discontinued division were retained and are now working for the continuing division, as the Company focused extra resources to mitigate the lost of Corporate accounts.

#### 2008 as compared to 2007

For the fiscal year ended December 31, 2008, marketing, sales and services decreased by \$420,305 from \$806,791 in 2007 to \$386,486. The variance for the year is explained by the decrease in salaries and relating costs and a decrease of stock-based compensation expenses in relation with the termination of employments and employees departures.

### General and Administration

General and administrative expenses include salaries, stock-based compensation and associated costs of employment of executive management and finance personnel. These costs also include facility charges, investor relations, as well as legal, tax and accounting, consulting and professional service fees associated with operating our business and corporate compliance requirements.

#### 2009 as compared to 2008

In 2009, general and administrative expenses amounted to \$2,329,947 compared to \$2,907,964 in 2008, a decrease of \$578,017. The variance is explained by the decrease in salaries, bonuses and stock-based compensation expenses for \$306,834 and the reduction in insurance cost for \$100,536. These differences occurred following the cost reduction plan which includes a reduction of our number of employees. The Company also has a better control on its professional service fees.

#### 2008 as compared to 2007

In 2008, general and administrative expenses amounted to \$2,907,964 compared to \$4,691,572 in 2007, a decrease of \$1,783,608. Salaries and stock-based compensation expenses were decreased by respectively \$338,000 and \$428,000. The difference is also related to the decrease in professional fees for \$650,000 mainly due to the reduction of legal fees. Finally, investor relation expenses were decreased by \$147,000 due to lower expenses related to the annual reporting and the insurance expenses decreased by \$142,000 due to lower premium for D&O insurance.

### Product Development and Technical Support

Product development and technical support costs include the salaries and associated costs of employment of our team's software developers and maintenance of our metasearch engine and other IT systems. These charges also include the costs of technical support and license maintenance. Research and development (R&D) tax credits are also recorded against product development and technical support expenses.



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2009 as compared to 2008

In 2009, product development and technical support expenses amounted to \$1,125,102 compared to \$1,836,986 last year, a decrease of \$711,884 mainly explained by a decrease in salaries, bonuses and stock-based compensation expenses for \$645,171.

2008 as compared to 2007

In 2008, product development and technical support expenses amounted to \$1,836,986 compared to \$2,198,673 for the previous year, a decrease of \$361,687.

Amortization of Property and Equipment

2009 as compared to 2008

In 2009, amortization of property and equipment stood at \$117,909 compared to \$89,169 in 2008. j

2008 as compared to 2007

In 2008, amortization of property and equipment stood at \$89,169 compared to \$138,515 in 2007 explained by the decrease of the asset's net book value at the beginning of 2008.

Amortization of Intangible Assets

2009 as compared to 2008

Amortization of intangible assets stood at \$720,729 in 2009 compared to \$980,285 in 2008. The decrease is explained by the write-downs of intangible assets of \$343,768 recorded in Q4 2008.

2008 as compared to 2007

Amortization of intangible assets stood at \$980,285 in 2008 compared to \$1,941,771 in 2007. The decrease is explained by the write-downs of intangible assets of \$1,985,470 recorded in Q4 2007.

Write-downs and Settlement Costs

2009 as compared to 2008

For the fiscal year ended December 31, 2009, write-down and settlement costs totalled \$10,924 compared to \$4,381,840 in 2008.

In 2009, the low amount of write-down of intangibles is explained by the accuracy of the fair value of the Company's assets.

In 2008, faced with improved competitive offerings, the underlying core technology in Copernic Desktop Search® needed to be significantly enhanced and therefore, the Company concluded, based on the assessment of the fair value of the Company's assets related to the software unit that the assets had suffered a loss in value and the fair value of goodwill and intangible assets was less than the carrying value of these assets.



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2008 as compared to 2007

For the fiscal year ended December 31, 2008, write-down and settlement costs totalled \$4,381,840 compared to \$9,300,001 in 2007.

The variance is mainly explained by the write-downs of goodwill and intangible assets related to the acquisition of Copernic Technologies Inc. of \$4,327,000 in 2008 compared to \$9,200,000 in 2007.

Restructuring Costs

In order to reduce its costs, the Company has decided to close the Montreal office in Q1 2009 and concentrate all its activities in Quebec City.

2009 as compared to 2008

The total cost of the restructuring which includes termination costs, head hunters' fees, lease termination costs and moving expenses amounted to \$33,677 in 2009 and \$101,012 in 2008.

Interest and Other Income

2009 as compared to 2008

Interest and other income increased to \$333,979 in 2009 from \$162,880 in 2008. The increase is explained by the interest earned on the balance of sale receivable. On the other hand, rates on investments were lower for last year.

2008 as compared to 2007

Interest and other income decreased to \$162,880 in 2008 from \$401,183 in 2007. The decrease reflected lower liquidities and lower interest rates in 2008.

Gain on Disposal of an Investment

2009 as compared to 2008

In Q1 2009, the Company sold shares it owned in a private company for the amount of \$169,239. This investment was acquired on March 30, 2000 and was accounted for as an investment in a company subject to significant influence. During 2001, the investment was written down to nil.

Gain /Loss on Foreign Exchange

Loss on foreign exchange totalled \$70,772 for the year ended December 31, 2009 compared to a gain of \$24,440 in 2008 and a loss of \$115,071 in 2007.

The gain / loss in foreign exchange is mainly due to the fluctuation of the Canadian dollar in 2009.

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### Income Taxes

For the fiscal year ended December 31, 2009, the recovery for current and future income taxes amounted to \$654,849 compared to \$854,392 in 2008 and \$2,005,279 in 2007.

In 2009, the income tax provision is explained by current income taxes paid of \$1,498 and the recovery of future income taxes in the amount of \$656,347 due to current amortization of intangible assets and the recovery of the income tax effect on the discontinued operation.

In 2008, the income tax provision is explained by current income taxes paid of \$522 and the recovery of future income taxes in the amount of \$854,914 due to current amortization of intangible assets and the recovery of the income tax effect on the discontinued operation.

In 2007, the income tax provision is explained by current income taxes paid of \$1,479 and the recovery of future income taxes in the amount of \$1,735,769 due to current amortization of intangible assets and the recovery of the income tax effect on the discontinued operation.

### Net Loss and Net Loss per Share from Continuing Operations

The Company reported a loss from continuing operations of \$2,285,514 (\$1.09 per share) in 2009, compared to a loss of \$7,529,104 (\$3.60 per share) in 2008 and a loss of \$15,461,176 (\$7.43 per share) in 2007.

### Net Earnings and Earnings per Share (Basic and Diluted) from Discontinued Operations

The Company reported a net income from discontinued operations of \$4,399,406 (\$2.10 per share) in 2009, compared to a net income of \$1,038,400 (\$0.50 per share) in 2008 and a net income of \$1,030,350 (\$0.50 per share) in 2007.

### Net Earnings (Loss) for the Year

The net earnings for the year totalled \$2,113,892 (\$1.01 per share) in 2009 compared to a net loss of \$6,490,704 (\$3.10 per share) in 2008 and net loss of \$14,430,826 (\$6.93 per share) in 2007. For 2009, 2008 and 2007, there is no difference between net loss under US GAAP as compared to Canadian GAAP.

### Q4 2009 Results from Continuing Operations

#### Revenues

Revenues for the three-month period ended December 31, 2009 totalled \$372,943 compared to \$693,467 for the same period in 2008, a decrease of \$320,524 or 46%. The variance is mainly explained by the decrease in software licensing revenues in the corporate sales channel.

#### Cost of Revenues

Cost of revenues is essentially bandwidth costs to deliver our services. In Q4 2009, cost of revenues represented \$7,136, compared to \$16,513 for the same period in 2008.

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### Marketing, Sales and Services

Marketing, sales and services consist primarily of salaries, commissions and related personnel expenses for our sales force, advertising and promotional expenses, as well as the provision for doubtful accounts.

In Q4 2009, marketing, sales and services expenses increased to \$193,312 from \$72,239 in Q4 2008, an increase of \$121,073. The variance is mainly explained by the fact that some of the employees who were working for the discontinued division were retained and are now working for the continuing division.

### General and Administration

General and administrative expenses in Q4 2009 totalled \$566,536 as compared to \$525,309 for the same period last year, an increase of \$41,227 or 8%.

### Product Development and Technical Support

Product development and technical support expenses amounted to \$271,085 in Q4 2009, compared to \$315,403 for the same period last year. These amounts are net of tax credits of \$83,884 for Q4 2009 and \$7,578 for Q4 2008.

The difference is mainly explained by a decrease in salaries, fringe benefits and bonuses. Following the cost reduction plan, management changed the R&D strategy to an approach allowing them to integrate existing technology.

### Amortization of Property and Equipment

Amortization of property and equipment totalled \$30,834 in Q4 2009, compared to \$979 for the same period last year.

### Amortization of Intangible Assets

Amortization of intangible assets decreased to \$182,335 in Q4 2009, compared to \$244,688 for the same period last year. The decrease is explained by the write-down of intangible assets in Q4 2008.

### Restructuring Costs

In order to reduce its costs, the Company has decided to close the Montreal office in 2009 and concentrate all its activities in Quebec City.

For the year 2009, an amount of \$33,677 was recorded.

### Interest and Other Income

Interest and other income increased to \$149,272 in Q4 2009 from \$40,306 in Q4 2008. The increase is explained by the interests earned on the balance of sale receivable. On the other hand, rates on investments were lower than last year.

### Gain /Loss on Foreign Exchange

Loss on foreign exchange totalled \$23,643 for Q4 2009, compared to a gain of \$18,218 for the same period in 2008.





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## Income Taxes

The recovery of future income taxes relates to the amortization of intangible assets which do not have the same asset bases for accounting and tax purposes. Recovery of future income taxes totalled \$60,067 in Q4 2009, compared to \$314,960 for the same period last year. The decrease of the future income taxes recovery is explained by the write-down of intangible assets in Q4 2008.

## Net Loss and Net Loss per Share from Continuing Operations

Net loss from continuing operations for the three months ended December 31, 2009 totalled \$716,576 (\$0.34 per share) compared to \$4,559,641 (\$2.18 per share) for the same period last year.

## Net Earnings (Loss) and Earnings (Loss) per Share (Basic and Diluted) from Discontinued Operations

Net earnings from discontinued operations for the three months ended December 31, 2009 totalled \$14,295 or \$0.01 per share compared to net earnings of \$ 299,204 or \$0.14 per share for the same period last year.

## Selected Annual Information

(in thousand of US dollars, except per share data and in accordance with generally accepted accounting principles in Canada)

| For the years ended December 31,   | 2009     | 2008     | 2007      | 2006     | 2005     |
|--|----------|----------|-----------|----------|----------|
|  | \$       | \$       | \$        | \$       | \$       |
| Revenues   | 1,653    | 2,218    | 1,702     | 2,655    | -        |
| Earnings (loss) from continuing operations                                 | (2,285 ) | (7,529 ) | (15,461 ) | (5,621 ) | -        |
| Results of discontinued operations, net of income taxes                    | 4,399    | 1,038    | 1,030     | 1,352    | (5,658 ) |
| Earnings (loss) for the year   | 2,114    | (6,490 ) | (14,431 ) | (4,269 ) | (5,658 ) |
| Loss per share from continuing operations (basic and diluted)              | (1.09 )  | (3.60 )  | (7.43 )   | (2.74 )  | -        |
| Earnings (loss) per share from discontinued operations (basic and diluted) | 2.10     | 0.50     | 0.50      | 0.66     | (2.76 )  |
| Net earnings (loss) per share (basic and diluted)                          | 1.01     | (3.10 )  | (6.93 )   | (2.08 )  | (2.76 )  |
| Total assets   | 12,712   | 10,782   | 18,358    | 33,339   | 38,327   |

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## Quarterly Financial Highlights

(in thousand of US dollars, except per share data and in accordance with generally accepted accounting principles in Canada)  
(unaudited)

|   | 2009    |         |         |         | 2008     |         |         |          |
|---|---------|---------|---------|---------|----------|---------|---------|----------|
|   | Q4      | Q3      | Q2      | Q1      | Q4       | Q3      | Q2      | Q1       |
|   | \$      | \$      | \$      | \$      | \$       | \$      | \$      | \$       |
| Revenues  | 373     | 353     | 413     | 514     | 693      | 498     | 599     | 428      |
| Net loss from continuing operations                               | (716 )  | (783 )  | (261 )  | (525 )  | (4,560 ) | (916 )  | (599 )  | (1,453 ) |
| Net loss per share from continuing operations (basic and diluted) | (0.34 ) | (0.37 ) | (0.12 ) | (0.25 ) | (2.18 )  | (0.44 ) | (0.29 ) | (0.69 )  |

## Concentration of Credit Risk with Customers

As at December 31, 2009, one customer represented 34% of net trade accounts receivable, compared to 32% from one customer for the same period last year, resulting in a significant concentration of credit risk. Management maintains that this is in fact a short term credit risk since it involves a revenue share deal in that the company sends thousands of retail transactions to an ad placement agency that collects settlement funds and remits a portion to the Company. Should the customer become delinquent in its payments, the Company can immediately switch its traffic to comparable suppliers on similar terms and conditions. This customer has paid its accounts receivable as per commercial agreement. The Company also monitors all other accounts receivable and there is no indication of credit risk deterioration.

## Liquidity and Capital Resources

## Operating Activities

In 2009, the cash used for operating activities of \$2,214,826 is explained by the loss from continuing operations net of non-cash items of \$2,345,123 offset by net change in non-cash working capital items of \$130,297.

In 2008, the cash used for operating activities of \$3,340,687 is mainly due to the loss from continuing operations net of non-cash items of \$2,949,676 and net change in non-cash working capital items of \$391,011.

In 2007, the cash used for operating activities was \$5,070,217 explained by the loss from continuing operations net of non-cash items of \$5,136,122 offset by net change in non-cash working capital items of \$65,905.

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Investing Activities

In 2009, investing activities generated cash of \$3,129,466 mainly explained by the decrease in temporary investments of \$3,005,224, the disposal of an investment of \$169,239 and the purchase of property and equipment and intangible assets of \$45,000.

In 2008, investing activities provided cash of \$939,224 mainly explained by the decrease in temporary investment of \$960,157 offset by the purchases of property and equipment and intangible assets of \$20,933.

In 2007, investing activities provided cash of \$1,408,367 mainly explained by the decrease in temporary investment of \$1,626,458 offset by the purchases of property and equipment and intangible assets of \$218,091.

Financing Activities

In 2009, financing activities used cash of \$62,106 for the repayment of obligations under capital leases.

In 2008, financing activities used cash of \$57,976 for the repayment of obligations under capital leases.

In 2007, financing activities provided cash totalling \$676,258 from issuance of capital stock upon exercise of options offset by repayment of obligations under capital leases of \$23,071.

The Company considers that the cash and cash equivalents will be sufficient to meet normal operating requirements until Q4 of 2010. In the long term, the Company may require additional liquidity to fund growth, which could include additional equity offerings or debt financing.

Dividend Policy

The Company has never paid dividends on any class of its common stock. The Company's management anticipates that earnings generated from the Company's operations will be used to finance the Company's working capital and market expansion opportunities and that, for the foreseeable future, cash dividends will not be paid to holders of the Company's Common Stock.

Commitments

The Company is committed under operating and capital lease agreements expiring at various dates until 2014. Future minimum payments under these leases as at December 31, 2009 are as follows:

|      | \$      |
|------|---------|
| 2010 | 135,870 |
| 2011 | 90,609  |
| 2012 | 31,042  |
| 2013 | 22,914  |
| 2014 | 1,673   |

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## Off-balance Sheet Arrangements

As at December 31, 2009, the Company has no off-balance sheet arrangements.

## Financial Instruments

As at December 31, 2009, the Company has no derivative financial instruments.

## Related Party Transactions

The Company and Dave Goldman Advisors Ltd., a company controlled by Mr. Goldman, a member of the Board of Directors, entered into a consulting agreement pursuant to which David Goldman provides services as Chairman of the Board of Directors. Total fees for 2009 and 2008 were respectively \$31,651 and \$41,455. The transactions are in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

The Company and Gen24Capital, a company co-owned by Marc Ferland, a member of the Board of Directors of the Company, entered into an agreement pursuant to which Marc Ferland performed various sales and marketing projects. Total fees for 2008 were \$16,245 and \$ nil for 2009. On March 3, 2008, Mr. Ferland was appointed President and CEO, and the consulting agreement was thereby terminated.

As at December 31, 2009, the Company owes its current directors \$9,074 compared to \$7,456 at the end of 2008.

## Capital Stock Information

The following table discloses the Company's outstanding share data:

| Number<br>of issued<br>and<br>outstanding<br>shares<br>as at March<br>26, 2010 | Book value<br>as at<br>December<br>31, 2009<br>under<br>Canadian<br>GAAP | Book value<br>as at<br>December<br>31, 2009<br>under US<br>GAAP |
|--|--|---|
| 2,091,913  | \$96,556,485   | \$113,326,055   |

As at March 26, 2010, the Company had no warrants and 132,343 stock options outstanding.

## Period-to-Period Comparisons

A variety of factors may cause period-to-period fluctuations in the Company's operating results, including business acquisitions, revenues and expenses related to the introduction of new products and services or new versions of existing products, new or stronger competitors in the marketplace as well as currency fluctuations. Historical operating results are not indicative of future results and performance.

## Subsequent Events

As announced on February 12, 2010, Copernic Inc. amended the agreement signed on November 12, 2009, pursuant to which the Company will issue, by way of private placement, 500,000 shares at \$4.00 per share for a total proceeds of \$2,000,000.

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The amended agreement also proposes a purchase, by Copernic, of 70.1% of the common shares outstanding of Sunbay Canada Corporation (“Sunbay”), a company registered in Ontario. The Board of Directors of Sunbay will be comprised of three members elected by Copernic, one of which will be Mr. Marc Ferland, Chief Executive Officer of Copernic who will also hold this position for Sunbay. In addition, Newlook Industries Corporation and Sunbay Energy Corporation will each elect a representative. Based on this amended agreement, Copernic will issue 150,000 common shares in exchange of its equity position in Sunbay valued at \$600,000 and 450,000 shares for cash of \$1,400,000. The closing is scheduled no later than April 30, 2010.

As announced on March 26, 2010, Copernic Inc. entered into a letter of intent with Fanotech Manufacturing Group with respect to the proposed acquisition by Copernic of the assets of Fanotech Manufacturing Group comprised of Fanotech Enviro Inc., Fanotech Waste Equipment Inc. and 1099958 Ontario Limited currently operating as FanoCore. The purchase price of approximately CND\$ 3.5M. will be based on the Net Book Value as at March 31, 2010, estimated at CND\$ 1.5M and 5 years of cumulative EBITDA estimated at CND\$ 2M. The purchase price will be payable by the issuance to the vendor of 320,000 common shares of Copernic at US\$ 6.00 / share for a total value of \$1,920,000 and the remaining balance will be payable in cash in an amount approximating CND\$ 1.5M subject to final determination of purchase price. The transaction is scheduled to close at the end of the second quarter and is subject to the receipt by Copernic of audited financial statements of Fanotech Manufacturing Group, satisfactory due diligence and board, shareholders and regulatory approvals.

Risks and Uncertainties

Copernic Inc.’s Management considers that these following factors, among others, should be considered in evaluating its future results of operations.

Risks associated with recently announced transactions.

Copernic announced, on February 12, 2010, that it had amended the terms and conditions of its previously announced private placement with 2208720, Ontario Limited. As described under the section Item 4, Information on the Company Subsequent Events in this report the proposed amended requires a series of transactions to be consummated. Although a break fee is payable in the event of a failure by the investors to close the transaction, there is no assurance that the transaction will close in a timely manner or at all. In addition, the consummation of such transaction will result in a substantial change in the nature of the business of Copernic. There is no assurance that if consummated such new business shall be profitable in the short or medium term.

Our revenues depend to some degree on our relationship with some customers, the loss of which would adversely affect our business and results of operations.

For the year ended December 31, 2009, the Company had two major customers from which 45% or more of total revenues are derived. Revenues from these customers represented 34% (an ad placement agency settling revenues for thousands of retail transactions) and 11% of the Company’s revenues as compared to 28% and 10% for the same period last year. These customers have traditionally been good payers.

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Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and our past results should not be relied on as an indication of our future performance. Our operating results may fluctuate as a result of many factors related to our business, including the competitive conditions in the industry, loss of significant customers, delays in the development of new services and usage of the Internet, as described in more detail below, and general factors such as size and timing of orders and general economic conditions. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this “Risk Factors” section, and the following factors, may affect our operating results:

Our ability to continue to attract users to our Web site

Our ability to monetize new products

Our ability to attract advertisers

The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure

Our focus on long term goals over short term results

The results of any investments in risky projects

Payments that may be made in connection with the resolution of litigation matters

General economic conditions and those economic conditions specific to Corporations, the Internet and Internet advertising

Our ability to keep our Web site operational at a reasonable cost and without service interruptions

Geopolitical events such as war, threat of war or terrorist actions

Our ability to generate revenues through licensing, subscriptions and revenue share.

Because our business is changing and evolving, our historical operating results may not be useful in predicting our future operating results.

We face significant competition from Microsoft, Google and Enterprise Search vendors.

We face formidable competition in every aspect of our business, and particularly from other companies that seek to provide sophisticated search tools for increased productivity both on the internet, the desktop and wireless devices. Currently, we consider our primary competitors on the desktop to be Microsoft and Google. Microsoft and Google have a variety of products, services and content that directly competes with us. Although we do not directly compete in the Enterprise search market, vendors such as Oracle, SAP and SAS amongst others offer desktop search to complement their existing product line to offer a full service solution. However search technology is evolving to context search, commonly called the semantic web. The company believes that it is well positioned to provide

innovative solutions in this evolving market but there are no assurances that these new technologies will be rapidly deployed or that the company can achieve a leadership position.

Microsoft, Google and others have more employees and cash resources than we do. These companies also have longer operating histories and more established relationships with customers. They can use their experience and resources against us in a variety of competitive ways, including by product bundling, making acquisitions, investing more aggressively in research and development and competing more aggressively for end users. Microsoft and Google also have a greater ability to attract and retain users than we do because they operate Internet portals with a broad range of products, services and content. In addition Microsoft and Google can vertically integrate with wireless devices by embedding search algorithms in the devices operating system, e.g. Android. To date the company has not attempted to offer products compatible with Apple computers and wireless devices due the significant differences in operating systems. As the iPhone achieves significant market share, such a limitation may become significant.



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If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could suffer.

Our success depends on providing products and services that people use for a high quality search experience. We believe that keyword search will evolve to semantic search and that context driven search from the desktop will significantly enhance internet searches yielding better results for end users. We believe that the end user will require more control on searches and that the web will become more specialized and fragmented with advertisers more focused on ROI and consummating sales transactions. Although representing a significant opportunity, our competitors are constantly developing innovations in Web search, desktop search and providing information to people. As a result, we must continue to invest significant resources in research and development in order to enhance our search technology and our existing products and services and introduce new high-quality products and services that people will use. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose end users who currently pay us for a leading technology. Our operating results would also suffer if our innovations were not responsive to the needs of our users and are not appropriately timed with market opportunity, effectively brought to market or well received in the market place. As search technology continues to develop, our competitors may be able to offer search results that are, or that are perceived to be, substantially similar or better than those generated by our search services.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of users will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the Company's brand is critical to expanding our base of users. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain the Copernic® brand, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high quality products and services, which we may not do successfully.

We generate all of our revenue from software licensing, maintenance and subscription fees for the use of our products, and the reduction of spending by or loss of customers could seriously harm our business.

If we are unable to remain competitive and provide value to our end users, they may stop promoting our solutions, pay maintenance fees or renew annual subscription fees, which could negatively affect our net revenues and business. Copernic has on-going efforts to maintain high quality products to provide a high degree of confidence to our customer base that Copernic products are leading edge, state of the art solutions to searching for information and that the Company will maintain and renew these products with new enhancements as technology further develops. This positioning improves the brand, strengthens viral marketing and continuously grows our paying subscriber base.

We make investments in new products and services that may not be profitable.

We have made and will continue to make investments in research, development and marketing for new products, services and technologies. Our success in this area depends on many factors including our innovativeness, development support, marketing and distribution. We may not achieve significant revenue from a new product for a number of years, if at all. For the years 2007 and 2008 and 2009, we did not generate significant revenues from licensing Copernic® software and it cannot be assured that significant revenue will be generated from the licensing of Copernic® software going forward. In addition, our competitors are constantly improving their competing software, and if we fail to innovate and remain competitive our revenues from software licensing will decline.



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Volatility of stock price and trading volume could adversely affect the market price and liquidity of the market for our Common Shares.

Our Common Shares are subject to significant price and volume fluctuations, some of which result from various factors including (a) changes in our business, operations, and future prospects, (b) general market and economic conditions, and (c) other factors affecting the perceived value of our Common Shares, including the current threat of delisting from Nasdaq Capital Markets. Significant price and volume fluctuations have particularly impacted the market prices of equity securities of many technology companies including without limitation those providing communications software or Internet-related products and services. Some of these fluctuations appear to be unrelated or disproportionate to the operating performance of such companies. The market price and trading volume of our Common Shares have been, and may likely continue to be, volatile, experiencing wide fluctuations. In addition, the stock market in general, and market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations have adversely affected the price of our stock, regardless of our operating performance.

On June 16, 2008 a notice from NASDAQ Listing Qualifications was received by the Company. The notice stated that for the last 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum \$1.00 per share requirement for continued inclusion under Marketplace Rule 4310(c)(4) (the "Rule"). Therefore, in accordance with Marketplace Rule 4310(c)(8)(D), the Company was provided 180 calendar days, or until December 15, 2008 to regain compliance. If, at any time before December 15, 2008, the bid price of the Company's common stock closed at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ Staff would provide written notification that it complied with the Rule. If compliance with this Rule could not be demonstrated by December 15, 2008, NASDAQ Staff would determine whether the Company meets The NASDAQ Capital Market initial listing criteria as set forth in Marketplace Rule 4310(c), except for the bid price requirement. If it met the initial listing criteria, NASDAQ Staff would notify the Company that it has been granted an additional 180 calendar day compliance period. If the Company was not eligible for an additional compliance period, NASDAQ Staff would provide written notification that the Company's securities would be delisted. At that time, the Company could appeal NASDAQ Staff's determination to delist its securities to a Listing Qualifications Panel (the "Panel"). These circumstances could adversely impact trading in our Common Shares and could also adversely affect our ability to access capital.

On October 22, 2008, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing.

The notice stated: "Given these extraordinary market conditions, NASDAQ has determined to suspend enforcement of the bid price and market value of publicly held shares requirements through Friday, January 16, 2009. In that regard, on October 16, 2008, NASDAQ filed an immediately effective rule change with the Securities and Exchange Commission to implement the suspension. As a result, all companies presently in a bid price or market value of publicly held shares compliance period will remain at that same stage of the process and will not be subject to being delisted for these concerns. These rules will be reinstated on Monday, January 19, 2009 and the first relevant trade date will be Tuesday, January 20, 2009.

Since your company had 59 calendar days remaining in its compliance period as of October 16th, it will, upon reinstatement of the rules, still have this number of days, or until March 19, 2009, to regain compliance. The company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days".

On December 19, 2008, NASDAQ issued an issuer alert #2008-005A stating "Given the continued extraordinary market conditions, NASDAQ is extending the suspension of the bid price and market value of publicly held shares

requirements. Enforcement of these rules is scheduled to resume on Monday, April 20, 2009. Any company in the compliance process for a bid price or market value of publicly held shares concern will continue to be “frozen” at the same stage of the process until the end of the suspension. However, a company could be delisted for other reasons during the suspension. NASDAQ staff will contact each company affected by this extension and notify those that regain compliance with these requirements during the suspension. NASDAQ will continue to monitor closely these circumstances.” The Company had 59 calendar days remaining in its compliance period, and therefore, with the new extension, it has until June 18, 2009 to effect compliance.

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On March 18, 2009, the Company received a NASDAQ Notice, indicating that the Company has received an extension to comply with the minimum bid price requirement for continued listing. The NASDAQ Notice discussed a proposed rule change to extend until July 19, 2009, the temporary suspension of the continued listing requirements related to bid price and market value of publicly held shares for listing on NASDAQ Stock Market. Since Copernic had 59 calendar days remaining in its compliance period, it will, upon reinstatement of the rules, still have this number of days, or until September 18, 2009 to regain compliance. The Company can regain compliance, either during the suspension or during the compliance period resuming after the suspension, by achieving a \$1 closing bid price for a minimum of 10 consecutive trading days.

On July 13, 2009 the Company received another letter from NASDAQ extending the temporary suspension, which means that the Company has until September 30, 2009 to comply with the minimum bid requirement for continued listing. Based on discussions with the SEC, NASDAQ does not expect any further extensions of the suspension. In order to satisfy NASDAQ Capital Market's minimum bid price requirement for continued listing, the Company's shares must trade at the minimum bid price requirement for a minimum of ten consecutive trading days. Therefore the Company announced on July 21 that it intends to seek shareholder approval to complete a share consolidation on the basis of one (1) post consolidation common share for every two (2) to ten (10) pre-consolidation shares. The exact consolidation factor will be determined at the discretion of the board of directors. The proposed share consolidation is subject to shareholder approval, and to this end, will be submitted for approval by the shareholders at a special shareholders' meeting scheduled to take place on Friday September 11, 2009 at 10 am at the offices of Fasken Martineau DuMoulin at 800 Place Victoria, 37th Floor, Montreal, Quebec. In addition to obtaining the requisite shareholder approval, the proposed share consolidation is subject to the ultimate discretion of the board of directors to implement the share consolidation.

In the event that the Consolidation Resolution does not receive the requisite approval, the articles will remain unchanged and then in all likelihood, the Company will not maintain its listing or re-list on any other exchange, or secondary markets, which could severely restrict trading activity in the common shares.

Furthermore despite the anticipated increase in the market value of the Company's common shares following the Consolidation, the future effect of the Consolidation on the market price of the Company's common shares cannot be accurately predicted.

In particular, there is no guarantee that after the Consolidation the price for the Company's common shares will range between two (2) and ten (10) times the market price for common shares immediately prior to the Consolidation. This is particularly the case since there are numerous factors and contingencies which could affect such market price, including the status of the market for the common shares at the time, the Company's reported results of operations in future periods and the general economic, political, stock market and industry conditions.

During a special meeting of the shareholders on September 11, 2009, the consolidation of issued and outstanding shares was approved effective as of September 14, 2009. The consolidation factor was 7:1. No fractional shares were issued and those shareholders who otherwise would have been entitled to receive fractional shares had their post-consolidation shareholdings rounded up to the next whole common share. The purpose of the Consolidation was to allow the Company to achieve compliance with the NASDAQ Capital Market's minimum bid requirement for continued listing. Prior to the completion of the Consolidation, the Company had 14,637,531 common shares outstanding, and upon completion of the Consolidation, the Company had 2,091,437 common shares outstanding.

As at December 31, 2009, the Company's closing stock price was \$2.70.



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Infringement and liability claims could damage our business.

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become increasingly high profile, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert resources and attention. In addition, many of our agreements with our advertisers require us to indemnify certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims. An adverse determination also could prevent us from offering our services to others and may require that we procure substitute services for these members.

With respect to any intellectual property rights claim, to resolve these claims, we may enter into royalty and licensing agreements on less favourable terms, pay damages or stop using technology or content found to be in violation of a third party's rights. We may have to seek a license for the technology or content, which may not be available on reasonable terms and may significantly increase our operating expenses. The technology or content also may not be available for license to us at all. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense, or stop using the content. If we cannot license or develop technology or content for the infringing aspects of our business, we may be forced to limit our product and service offerings and may be unable to compete effectively. Any of these results could harm our brand and operating results.

In addition, we may be liable to third-parties for content in the advertising we deliver if the artwork, text or other content involved violates copyright, trademark, or other intellectual property rights of third-parties or if the content is defamatory. Any claims or counterclaims could be time-consuming, could result in costly litigation and could divert management's attention.

Additionally, we may be subject to legal actions alleging patent infringement, unfair competition or similar claims. Others may apply for or be awarded patents or have other intellectual property rights covering aspects of our technology or business. For example, we understand that X1 has won a patent to provide search results as you type a function utilised by other companies including Copernic Inc.

An inability to protect our intellectual property rights could damage our business.

We rely upon a combination of trade secret, copyright, trademark, patents and other laws to protect our intellectual property assets. We have entered into confidentiality agreements with our management and key employees with respect to such assets and limit access to, and distribution of, these and other proprietary information. However, the steps we take to protect our intellectual property assets may not be adequate to deter or prevent misappropriation. We may be unable to detect unauthorized uses of and take appropriate steps to enforce and protect our intellectual property rights. Additionally, the absence of harmonized patent laws between the United States and Canada makes it more difficult to ensure consistent respect for patent rights. Although senior management believes that our services and products do not infringe on the intellectual property rights of others, we nevertheless are subject to the risk that such a claim may be asserted in the future. Any such claims could damage our business.

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Working capital may be inadequate.

For the years ended December 31, 1999 through the year ended December 31, 2003, for the years ended December 31, 2005 to December 31, 2008 and for year ended December 31, 2009, we have reported net losses from continuing operations. On June 30, 2009, the sale of Mamma.com and its AD Network for \$5 million was consummated. The purchase price is to be paid in equal payments of \$100,000 per month for 36 months beginning at the end of Q3 2009. The remaining balance will be payable at the end of the 36-month period. Management considers that liquidities as at December 31, 2009 will be sufficient to meet normal operating requirements throughout December 31, 2010. In the long term, we may require additional liquidity to fund growth, which could include additional equity offerings or debt finance. No assurance can be given that we will be successful in getting required financing in the future or that positive cash flow will be generated in the future.

The asset sale of Mamma.com and its AD Network

On June 30, 2009, the Company entered into an asset purchase agreement with Empresario, Inc., a private company located in Chicago, Illinois (the "Purchaser"), to sell certain of its assets relating to Mamma.com and its AD network which is comprised of third party publishers of search queries and advertisers who generate search results in an auction process that ranks the highest paid results to be delivered to the search query originator who completes the transaction by "clicking" on a desired result (the "AD Network"), (Mamma.com and AD Network collectively referred to as the "Mamma Unit") for a total consideration of \$5 million plus interest (the "Transaction").

Subject to the terms of the Asset Purchase Agreement, the Company has sold its Mamma Unit for \$5 million to be paid in equal monthly instalments of \$200,000 over 25 months ("Payments") to the Purchaser. The first Monthly Payment was due on September 15, 2009 and, subject to adjustments pursuant to the Asset Purchase Agreement, the last Monthly Payment shall be payable on September 15, 2011. Interest shall accrue from the date of purchase on a monthly basis on the balance of the purchase price and any other amount payable under the Asset Purchase Agreement at a nominal interest rate of 4% compounded monthly and payable no later than 30 days after the date of the last Monthly Payment. Should the Purchaser make a Monthly Payment of less than \$200,000, the Purchaser shall pay an amount equal to the difference between \$200,000 and the actual amount of the Monthly Payment made by the Purchaser within 90 days of the date that such Monthly Payment was made to the Company. The shortfall amount shall bear interest at a rate of 4% per annum compounded monthly and shall be payable no later than 30 days after the date of the last Monthly Payment. If the Purchaser fails to perform or observe any one of its obligations under the Asset Purchase Agreement including, without limitation, in the event of (i) a shortfall amount equal to or more than \$50,000 becoming due and payable, or (ii) a shortfall amount remaining unpaid by the Purchaser at the end of the 90-day period, the Purchaser be considered to be in default of the Asset Purchase Agreement and the Company may immediately terminate the Asset Purchase Agreement. Furthermore, after having given notice, the Company may on its absolute discretion, enter the premises where the Purchased Assets are located and take immediate possession of them.

Pursuant to the terms of the agreement concluded on June 30, 2009, the purchaser was to pay 25 equal monthly instalments of \$200,000, beginning on September 15, 2009. Interest at the rate of 4% (effective rate at 13.6%), compounded monthly, was to be calculated on the outstanding balance of sale and was payable 30 days after all principal payments were completed. Pursuant to an amended agreement signed on November 12, 2009, the payment terms were changed from 25 to 36 equal monthly instalments of the greater of \$100,000 or 85% of the revenues at an annual interest rate of 13.6%, compounded monthly, and calculated on the outstanding balance of sale. The remaining balance will be payable at the end of the 36-month period. That change had no impact on the fair value of the balance of sale receivable. Initially recorded on June 30, 2009, an amount of \$4,447,230, which represents the fair value at the transaction date, was booked as Balance of sale receivable. The net book value of the assets sold was nil. As at December 31, 2009, the total transaction fees amounted to \$299,441, resulting in a net gain on disposal of assets



amounting to \$4,147,789.

There can be no assurance that the purchaser will not be in default or that in the case of repossession the value of the assets can be maintained by operating the asset, or that the asset can be re-sold.

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Goodwill may be written-down in the future.

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate impairment may have occurred. Management monitors goodwill for impairment by considering estimates including discount rate, future growth rates, amounts and timing of estimated future cash flows, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the goodwill. Consequently, our goodwill, which amounts to approximately \$3.4M as at December 31, 2009, may be written-down in the future which could adversely affect our financial position.

Long-lived assets may be written-down in the future.

The Company assesses the carrying value of its long-lived assets, which include property and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. Management monitors long-lived assets for impairment by considering estimates including discount rate, future growth rates, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the long-lived assets. Consequently, our long-lived assets, which amount to approximately \$0.5M as at December 31, 2009, may be written-down in the future.

Security breaches and privacy concerns may negatively impact our business.

Consumer concerns about the security of transmissions of confidential information including customer profiling over public telecommunications facilities is a significant barrier to increased electronic commerce and communications on the Internet that are necessary for growth of the Company's business. Many factors may cause compromises or breaches of the security systems we use or other Internet sites use to protect proprietary information, including advances in computer and software functionality or new discoveries in the fields of cryptography and processor design. A compromise of security on the Internet would have a negative effect on the use of the Internet for commerce and communications and negatively impact our business. Security breaches of their activities or the activities of their customers and sponsors involving the storage and transmission of proprietary information, such as credit card numbers, may expose our operating business to a risk of loss or litigation and possible liability. We cannot assure you that the measures in place are adequate to prevent security breaches.

Our business is subject to a variety of U.S. and foreign laws that could subject us to claims or other remedies based on the nature and content of the information searched or displayed by our products and services, and could limit our ability to provide information regarding regulated industries and products.

The laws relating to the liability of providers of online services for activities of their users are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, invasion of privacy and other data protection claims, tort, unlawful activity, copyright or trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted or the content generated by our users. Increased attention focused on these issues and legislative proposals could harm our reputation or otherwise affect the growth of our business.

The application to us of existing laws regulating or requiring licenses for certain businesses of our advertisers, including, for example, distribution of pharmaceuticals, adult content, financial services, alcohol or firearms and online gambling, can be unclear. Existing or new legislation could expose us to substantial liability, restrict our ability to deliver services to our users, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations.



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Several other federal laws could have an impact on our business. Compliance with these laws and regulations is complex and may impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for listing or linking to third-party Web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Children's Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In addition, the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Any failure on our part to comply with these regulations may subject us to additional liabilities.

Changes in key personnel, labour availability and employee relations could disrupt our business.

Our success is dependent upon the experience and abilities of our senior management and our ability to attract, train, retain and motivate other high-quality personnel, in particular for our technical and sales teams. There is significant competition in our industries for qualified personnel. Labour market conditions generally and additional companies entering industries which require similar labour pools could significantly affect the availability and cost of qualified personnel required to meet our business objectives and plans. There can be no assurance that we will be able to retain our existing personnel or that we will be able to recruit new personnel to support our business objectives and plans. Currently, none of our employees are unionized. There can be no assurance, however, that a collective bargaining unit will not be organized and certified in the future. If certified in the future, a work stoppage by a collective bargaining unit could be disruptive and have a material adverse effect on us until normal operations resume.

Strategic acquisitions and market expansion present special risks.

A future decision to expand our business through acquisitions of other businesses and technologies presents special risks. Acquisitions entail a number of particular problems, including (i) difficulty integrating acquired technologies, operations, and personnel with the existing businesses, (ii) diversion of management's attention in connection with both negotiating the acquisitions and integrating the assets as well as the strain on managerial and operational resources as management tries to oversee larger operations, (iii) exposure to unforeseen liabilities relating to acquired assets, and (iv) potential issuance of debt instruments or securities in connection with an acquisition possessing rights that are superior to the rights of holders of our currently outstanding securities, any one of which would reduce the benefits expected from such acquisition and/or might negatively affect our results of operations. We may not be able to successfully address these problems. We also face competition from other acquirers, which may prevent us from realizing certain desirable strategic opportunities.

We do not plan to pay dividends on the Common Shares.

The Company has never declared or paid dividends on its shares of Common Shares. The Company currently intends to retain any earnings to support its working capital requirements and growth strategy and does not anticipate paying dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

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Rapidly evolving marketplace and competition may adversely impact our business.

The markets for our products and services are characterized by (i) rapidly changing technology, (ii) evolving industry standards, (iii) frequent new product and service introductions, (iv) shifting distribution channels, and (v) changing customer demands. The success of the Company will depend on its ability to adapt to its rapidly evolving marketplaces. There can be no assurance that the introduction of new products and services by others will not render our products and services less competitive or obsolete. We expect to continue spending funds in an effort to enhance already technologically complex products and services and develop or acquire new products and services. Failure to develop and introduce new or enhanced products and services on a timely basis might have an adverse impact on our results of operations, financial condition and cash flows. Unexpected costs and delays are often associated with the process of designing, developing and marketing enhanced versions of existing products and services and new products and services. The market for our products and services is highly competitive, particularly the market for Internet products and services which lacks significant barriers to entry, enabling new businesses to enter this market relatively easily. Competition in our markets may intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with the Company's products and services. Many of our current and potential competitors have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for products and services down and such price reductions may reduce our revenues.

To the extent that some of our revenues and expenses are paid in foreign currencies, and currency exchange rates become unfavourable, we may lose some of the economic value in U.S. dollar terms.

Although we currently transact a majority of our business in U.S. dollars, as we expand our operations, more of our customers may pay us in foreign currencies. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. This could have a negative impact on our reported operating results. We do not currently engage in hedging strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures to mitigate this risk. If we determine to initiate such hedging activities in the future, there is no assurance these activities will effectively mitigate or eliminate our exposure to foreign exchange fluctuations. Additionally, such hedging programs would expose us to risks that could adversely affect our operating results, because we have limited experience in implementing or operating hedging programs. Hedging programs are inherently risky and we could lose money as a result of poor trades. For year ended December 31, 2009, the increase of the net results is \$160,000. For the continuing operations, the revenues are mostly in US currency and most of the expenses are paid in foreign currencies.

Higher inflation could adversely affect our results of operations and financial condition.

We do not believe that the relatively moderate rates of inflation experienced in the United States and Canada in recent years have had a significant effect on our revenues or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which we might transact business, we do not believe that such rates have had a material effect on our results of operations, financial condition and cash flows. For the next twelve months inflationary pressures are not anticipated, nevertheless high inflation could have a material, adverse effect on the Company's results of operations, financial condition and cash flows, if it were to occur.

Risks related to the economic environment.

The activities of Copernic are subject to the influence of the general economic environment. We believe that the current difficult economic situation has negatively affected business activities amongst customers of Copernic and, consequently the demand for our products in 2009. Management continues to focus on the distribution network and

corporate sales to reduce its exposure to the less than favourable economy. However there are no assurances that the economic situation will improve in the short term or that management's offset programs will be successful.

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Forward-Looking Statements

Information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements, which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "desires," "will," "should," "projects," "estimates," "contemplates," "anticipates," "intends," such as "does not believe" or other variations thereof or comparable terminology. No assurance can be given that potential future results or circumstances described in the forward-looking statements will be achieved or occur. Such information may also include cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the projections and other expectations described in such forward-looking statements. Prospective investors, customers, vendors and all other persons are cautioned that forward-looking statements are not assurances, forecasts or guarantees of future performance due to related risks and uncertainties, and that actual results may differ materially from those projected. Factors which could cause results or events to differ from current expectations include, among other things: the severity and duration of the adjustments in our business segments; the effectiveness of our restructuring activities, including the validity of the assumptions underlying our restructuring efforts; fluctuations in operating results; the impact of general economic, industry and market conditions; the ability to recruit and retain qualified employees; fluctuations in cash flow; increased levels of outstanding debt; expectations regarding market demand for particular products and services and the dependence on new product/service development; the ability to make acquisitions and/or integrate the operations and technologies of acquired businesses in an effective manner; the impact of rapid technological and market change; the impact of price and product competition; the uncertainties in the market for Internet-based products and services; stock market volatility; the trading volume of our stock; the possibility of delisting our stock since the Company may not satisfy the requirements for continued listing on the NASDAQ Capital Market including whether the minimum bid price for the stock falls below \$1; and the adverse resolution of litigation. For additional information with respect to these and certain other factors that may affect actual results, see the reports and other information filed or furnished by the Company with the United States Securities and Exchange Commission ("SEC") and/or the Ontario Securities Commission ("OSC") respectively accessible on the Internet at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com), or the Company's Web site at [www.copernic.com](http://www.copernic.com). All information contained in these audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations is qualified in its entirety by the foregoing and reference to the other information the Company files with the SEC and the OSC. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

On behalf of Management,  
Quebec City, Canada  
March 26, 2010

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## Capital Stock Information

The following table discloses the Company's outstanding share data:

| Number of issued and<br>outstanding common shares<br>as at December 31, 2009 | Book value<br>as at<br>December 31,<br>2009<br>under<br>Canadian<br>GAAP | Book value<br>as at<br>December 31,<br>2009<br>under US<br>GAAP |
|--|--|---|
| 2,091,437  | \$96,556,485   | \$113,326,055   |

As at December 31, 2009, the Company also had no warrants and 132,343 stock options outstanding.



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## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## DIRECTORS AND SENIOR MANAGEMENT

Following is a table, which discloses the names, functions, areas of expertise within the Company and present principal occupation(s) of the Company's directors and senior management.

| Name                            | Functions and areas of experience within the Company | Present Principal Occupation(s)   | Date first elected Director or appointed Senior Officer of the Company |
|---------------------------------|--|---|--|
| Marc Ferland <sup>1</sup>       | Director and Officer                                 | President, and Chief Executive Officer Copernic Inc.  | September 21, 2007   |
| David Goldman                   | Director   | Chairman,<br>Copernic Inc.<br>Director, SNC-Lavalin Group Inc. (an engineering and construction company listed on the Toronto Stock Exchange) | May 24, 2001   |
| Claude E. Forget                | Director   | Consultant  | October 11, 1999   |
| Irwin Kramer                    | Director   | President, iCongo, Inc.<br>(an e-commerce and service company)  | May 24, 2001   |
| Dr. David Schwartz              | Director   | Associate Professor, Bar Ilan University<br>School of Business Administration   | May 23, 2002   |
| Lawrence Yelin                  | Director   | Attorney, Lawrence Yelin, Attorney  | September 21, 2007   |
| Jean-Rock Fournier <sup>2</sup> | Officer  | Executive Vice President - Chief Financial Officer.   | March 31, 2009   |
| Dennis Dion                     | Officer  | Vice President - Sales<br>Copernic Inc.   | November 11, 2008  |
| Benoit Godbout                  | Officer  | Vice President - Chief Technology Officer<br>Copernic Inc.  | June 17, 2008  |

Each Director's term of office expires at the earliest of the next annual meeting of shareholders or his resignation as Director.

To the knowledge of the Company, there is no family relationship among any of the persons named in this Item 6, nor were any such persons selected as directors or members of senior management pursuant to any arrangement or understanding with major shareholders, customers, suppliers or others.

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1 Marc Ferland served as acting CFO through March 31, 2009.

2 Jean-Rock Fournier was hired as Vice President Finances on January 5, 2009 and named Chief Financial Officer on March 31, 2009.

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STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The directors of the Company strongly believe that sound corporate governance is essential to produce maximum value to shareholders. The following is a summary of the governance practices of the Company.

The Board of Directors has approved and adopted a document entitled “Responsibilities of the Board of Directors and its three Committees” which sets forth the responsibilities for the Board and these three committees. That document is available on SEDAR at [www.sedar.com](http://www.sedar.com). That document includes the Board’s mandate, the Charters of the Board’s three committees and the Company’s insider trading policy and code of ethics. The Company’s code of ethics is available on SEDAR at [www.sedar.com](http://www.sedar.com). In accordance with the policies and guidelines outlined in that document, the Board of Directors constantly strives to promote a culture of ethical conduct in an effort to meet the highest industry standards. All decisions are carefully considered from this point of view and the Board of Directors does not act until all factors have been adequately considered. This approach is expected of management and, to a relevant degree, all employees of the Company.

1. Composition of the Board of Directors

More than fifty percent of the directors of the Company are “independent” directors. An independent director is independent of management and free of any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act in the best interest of the Company, as required by the standards of the NASDAQ Stock Exchange® and the Ontario Securities Commission.

The Chair of the Board of Directors is David Goldman, who is not an independent director. Mr. Goldman also sits on the board of directors of SNC-Lavalin Group Inc. The Board feels strongly that Mr. Goldman’s abilities, extensive experience as a director of listed companies and role in the Company make him best suited for this position. The Board will continue to consider whether or not the position of Chairman should be occupied by an independent director and, if circumstances change, will take action to adjust the composition of the Board accordingly or appoint a lead director who is independent. Independent directors meet, when they deem it advisable, through in camera sessions conducted after or during each meeting of the Board. The independent directors, when they deem it advisable, make recommendations to the Board on various matters. The Board will continue to encourage regular meetings of the independent directors through in camera sessions as it feels that it is a good way to facilitate Board operations independently of management and to maintain and improve the quality of governance.

The directors consider the following nominees to be independent to the Company: Claude E. Forget, Irwin Kramer, Dr. David Schwartz, and Lawrence Yelin. Through October 2, 2001, Claude E. Forget was Chief Executive Officer of Intasys Billing Technologies, a subsidiary of the Company, whose business was subsequently sold. The Board of Directors has determined that Marc Ferland and David Goldman are not independent because they are officers of the Company.

In June 2008, David Goldman resigned as an officer of the Company.

During the 2009 fiscal year, the Board of Directors met 15 times and all of the Directors attended all of the meetings, except for two directors, David Schwarz and David Goldman, who did not attend three special meetings.

The Board of Directors’ mandate is set forth in the document entitled “Responsibilities of the Board of Directors and its Three Committees,” which provides in pertinent part:



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It is the explicit responsibility of the Board of Directors to assume the global stewardship of the Company and to ensure itself of the pertinence and efficiency of the key functions and of the following matters:

Strategic planning.

Financial management.

Identification of the principal risks associated with the activities of the Company and the establishment of an appropriate system to manage these risks.

Succession planning, including appointing, training and monitoring officers.

The communications policy of the Company with its shareholders.

The integrity of the Company's internal control and management information systems.

The Board has drawn up a written position description for the Chairman of the Board and CEO. The Chairman of a Board committee is mainly responsible for overseeing how the committee is managed and that it effectively performs its duties and to guide the committee in the performance of its charter mandate and any other matter which the Board delegates to the committee.

The Board ensures that each new director has the necessary abilities, expertise, availability and knowledge to properly perform his duties and provides him with the corporate information and documentation required to do so. Additional education of directors and information about our activities is available upon request.

All directors, officers and employees who have information giving them reasonable grounds to believe that certain accounting practices or the auditing of the Company are illegal or irregular, or that other violations of our Code of Ethics have or are occurring, can and are encouraged to utilize the Company's Whistleblower Policy.

No material change report that pertains to any conduct of a director or officer that constitutes a departure from the Code of Ethics was filed during financial year 2009.

Our Code of Ethics clearly states that the directors and executive officers must avoid any transaction or event which could give rise to a conflict of interest. If an event or transaction occurs in which a director has a material interest, he must disclose his interest to the Board and refrain from voting with respect to any matter related thereto.

The role of the Nominating and Governance Committee is, among other things, to assess the effectiveness of the Board, its committees and its directors.

## 2. Committees of the Board of Directors

The Company maintains three standing committees: the Audit and Finance Committee, the Nominating and Governance Committee and the Compensation Committee.

As part of its ongoing review of corporate governance matters, on March 29, 2006 the Company's Board of Directors approved Charters constituting a Compensation Committee and a Nominating and Governance Committee to segregate the nominating and executive compensation functions into separate Charters as required by the standards of the NASDAQ Stock Exchange®.

Composition of the Audit and Finance Committee

The current members of the Audit and Finance Committee are Irwin Kramer, Dr. David Schwartz, Claude E. Forget and Lawrence Yelin all of whom are independent. On March 29, 2006, the Board approved a new Charter of the Audit and Finance Committee of the Company. The Charter provides that the Audit and Finance Committee shall assist the Board in fulfilling its responsibilities relating to corporate accounting and reporting practices of the Company and in the quality and integrity of financial reports of the Company. The Audit and Finance Committee meets with the financial officers of the Company, including the Chief Financial Officer, and the independent auditors to review financial reporting matters, the system of internal accounting controls and the overall audit plan and examines the quarterly and year-end financial statements before their presentation to the Board. In addition, the Audit Committee fixes the compensation and other terms of engagement of the Company's independent auditors. In 2009, the Audit and Finance Committee met 6 times and the Company's independent auditors were present at 5 of these meetings.

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### Composition of the Nominating and Governance Committee

The current members of the Nominating and Governance Committee are Irwin Kramer, Dr. David Schwartz, Claude E. Forget and Lawrence Yelin.

The Nominating and Governance Committee is responsible for, among other things, overseeing and making recommendations to the Board on the following matters:

- (i) the search for and compensation of all senior executives and management of the Company and its subsidiaries, including periodic review of same;
- (ii) the Company's management structure and succession plans;
- (iii) the recommendation of new candidates as potential directors of the Company and the assessment of the performance of current directors and committees; and
- (iv) the review and recommendation of procedures to be followed with respect to corporate governance guidelines.

### Composition of the Compensation Committee

The current members of the Compensation Committee are Irwin Kramer, Dr. David Schwartz, Claude E. Forget and Lawrence Yelin.

The Compensation Committee is responsible for, among other things, overseeing and making recommendations to the Board on the following matters:

- (i) the compensation of all senior executives and management of the Company and its subsidiaries, including periodic review of same;
- (ii) the incentive plans for employees of the Company and its subsidiaries; and
- (iii) the Company's Stock Option Plan and the granting of stock options thereunder.

### Report on Executive Compensation

As part of its ongoing dedication to creating shareholder value and promoting corporate success, the Compensation Committee establishes executive compensation in order to attract, retain and motivate key executives in the increasing competitive Internet and information technology sectors and to reward significant performance achievements.

Consistent with the Company's objectives, and in order to further align shareholder and executive interests, the Compensation Committee places emphasis on base salary, incentive compensation, discretionary bonus and long-term incentive compensation by granting of stock options in establishing executive compensation. Consequently, the standard executive compensation package of the Company is composed of four major components: (i) base salary and benefits, (ii) short-term incentive and (iii) long-term incentive compensation.

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In making compensation decisions with respect to each of these components, the Compensation Committee considers external market data for executives. Towers Perrin was retained by the Chair of the Compensation Committee in 2007, 2006 and 2005 to assist with preparing information and providing advice on officer and Board of Director compensation arrangements. Materials prepared by Towers Perrin have been presented by the Chair to the Compensation Committee for review and decisions. Towers Perrin's scope of services in the most recent fiscal year included providing advice and market data related to Board of Director and officer compensation arrangements, assisting with the design of special compensation programs, and other general executive compensation assistance. Towers Perrin does not provide any other services to the Company. The Compensation Committee uses the compensation data from Towers Perrin as one of several factors in determining the appropriate levels of base salary, short-term and long-term incentives that fairly compensate the Company's executive officers.

In setting the compensation package for executives, the Compensation Committee balances consideration of base salary with short-term incentive compensation so that a significant proportion of executive officers' compensation is linked to objectives aligned with the interests of the Company's shareholders. The compensation packages include:

i) Salary and Benefits

Salary and benefits policies of the Company are determined by bench marking similar businesses in the Internet sector and are targeted at the mid range in the sectors, taking into account the economic trends, the Company's competitive position and performance and extraordinary contributions to the Company.

ii) Short-Term Incentive Compensation

The Company provides short-term cash incentive compensation to employees and officers whose responsibilities and attainment of Company objectives exceed established expectations, based on operating results and financial performance. The amount of these payments is approved by the Compensation Committee and is based on specific goals in these areas. Incentive compensation targets are set during the first quarter of each year.

In the case of Named Executive Officers, as defined hereinafter under the heading "Statement of Executive Compensation", targeted incentive compensation varies primarily on the level of responsibility of the individual. Generally, bonuses are higher when operating results and financial performance objectives are exceeded and when the objectives are not met, the incentive bonuses are lower or nil depending on the circumstances and the individual's contribution to the Company.

The Board of Directors, upon recommendation of the Compensation Committee, also may award bonuses as deemed necessary to compensate management for circumstances where warranted to reward extraordinary contributions to the Company not reflected in our results of operations if and when deemed in the Company's best interest.

For the year ended December 31, 2009, for all employees, incentive compensation was earned related to Company objectives as minimal financial targets were realized.

iii) Long-Term Incentive Compensation

The long-term incentive component of the Company's compensation program consists of the stock option plan of the Company which provides for the issuance of options to executive officers and other employees, directors or consultants to purchase common shares of the Company. The stock option plan of the Company is described below under the heading "Stock Option Plan".





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The Compensation Committee determines the executives, employees and directors eligible for the granting of options pursuant to the stock option plan. It also determines the size of each grant and the date on which each grant is to become effective. The exercise price of options granted may not be less than the market price of the Company's common shares as traded on the NASDAQ Stock Exchange® in U.S. dollars determined as of the date the options are granted. The number of options granted annually to recipients is determined by the Compensation Committee on a discretionary basis.

The Compensation Committee may, in its discretion, determine when the options granted under the stock option plan may be exercised or vested, provided that the term of such options can not exceed ten (10) years.

Unless otherwise stipulated by the terms of a stock option grant, which terms are approved by the Compensation Committee, options granted pursuant to the stock option plan will lapse thirty (30) days after the holder ceases to be employed by the Company. In the event of death, any vested option of a holder lapses three (3) months after his or her death. In the event that the holder's employment terminates due to disability, the holder may exercise the vested options for one (1) year after the date of termination of employment. If the holder is terminated for cause, vested options terminate immediately.

In July 2007, the Company reviewed its stock option plan to assess its retention potential for key employees. The review was initiated following the resignation of a number of key employees due to a competitive labor market in the high tech industry in the Quebec City region. PCI Perrault Consulting Inc. was retained by the Chair of the Compensation Committee to assist with preparing information and providing advice.

In light of the above and consistent with the Company's objectives to retain key employees, the Board of Directors has, on September 18, 2007, reviewed and accepted stock option grants to key employees that would vest on equal increments over a three-year period.

At the time that the Stock Option Plan was reviewed in July 2007, 200,000 Common Shares were reserved for issuance under this plan. Taking into account options that have been cancelled or forfeited, options to acquire a net total of 93,143 Common Shares have been granted on September 18, 2007 under the Stock Option Plan. As of January 1, 2010, 16,409 Common Shares remain available for future grants.

## Conclusion

The Company's executive compensation policy links executive compensation to corporate results and individual contribution, as well as stock performance and long-term results. The Compensation Committee regularly reviews the various executive compensation components to ensure that they maintain their competitiveness in the industry and continue to focus on the Company's objectives, values and business strategies.

Depending on specific circumstances, the Compensation Committee may also recommend employment terms and conditions that deviate from the above described policies.

## Statement of Executive and Board Compensation

In 2009, the Directors received US 5,000 per quarter and US \$1,000 per meeting in person and US \$500 by phone. Per quarter, the Chairman of the Board also received US \$3,125, the Audit Committee Chairman received US \$2,500 and of the other two Board Committees received US \$1,250 each.

The following summary table, presented in accordance with applicable securities legislation, sets forth all compensation provided by the Company and its affiliates for the fiscal years ended December 31, 2007, 2008 and

2009 to:

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- (i) the Chief Executive Officer;
- (ii) the Chief Financial Officer;
- (iii) each of the Company's three most highly compensated executive officers, other than the Chief Executive Officer and the Chief Financial Officer, who were serving as executive officers at the end of December 31, 2008 and whose total salary and bonus exceeded CDN \$150,000, and
- (iv) such other individuals for whom the foregoing disclosure would have been made but for the fact that such individual was not an officer of the Company at the end of December 31, 2008 (collectively, the "Named Executive Officers").

## Summary Compensation Table

Compensation is payable in Canadian dollars and converted by using the yearly average U.S. exchange rate. Exchange rate conversions were 0.9352 in 2007, 0.9443 in 2008 and 0.8802 in 2009.

| Name and Principal Occupation                | Year | Annual Compensation |                  |   |
|--|------|---------------------|------------------|---|
|  |      | Salary<br>U.S. \$   | Bonus<br>U.S. \$ | Other Annual<br>Compensation<br>(Taxable Benefits<br>Related to<br>Exercised<br>Options and<br>Other) |
| Marc Ferland                                 | 2009 | 243,768             | 110,025          | Nil   |
| President and Chief Executive Officer and    | 2008 | 190,636             | Nil              | 7,077   |
| Acting CFO                                   | 2007 | N/A                 | N/A              | N/A   |
| Éric Bouchard <sup>1</sup>                   | 2009 | 17,843              | 8,802            | Nil   |
| Vice President - Products                    | 2008 | 177,560             | 18,882           | 3,813   |
|  | 2007 | 169,155             | 10,161           | 3,813   |
| Daniel Bertrand <sup>2</sup>                 | 2009 | N/A                 | N/A              | N/A   |
| Executive Vice President and Chief Financial | 2008 | 136,310             | 9,441            | 3,387   |
| Officer                                      | 2007 | 172,897             | 12,982           | 117,534   |
| Martin Bouchard <sup>3</sup>                 | 2009 | N/A                 | N/A              | N/A   |
| President and Chief Executive Officer        | 2008 | 60,999              | Nil              | 750   |
|  | 2007 | 220,526             | 22,456           | 3,813   |
| Guy Fauré <sup>4</sup>                       | 2009 | N/A                 | N/A              | N/A   |
| President and Chief Executive Officer        | 2008 | N/A                 | N/A              | N/A   |
|  | 2007 | 46,403              | Nil              | 502,977   |
| Patrick Hopf <sup>5</sup>                    | 2009 | N/A                 | N/A              | N/A   |
| Vice President - Business Development        | 2008 | 21,569              | Nil              | 750   |
|  | 2007 | 154,145             | Nil              | 47,817  |
| Jean-Rock Fournier                           | 2009 | 109,179             | 17,604           | Nil   |
| Executive Vice President – Chief Financial   | 2008 | N/A                 | N/A              | N/A   |
| Officer                                      | 2007 | N/A                 | N/A              | N/A   |

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1 Eric Bouchard did not renew his employment contract which expired on December 31, 2008.

2 Daniel Bertrand resigned from his position as Executive Vice President and Chief Financial Officer on September 8, 2008. In connection with his resignation, the Company paid Mr. Bertrand termination compensation and recorded termination costs of CDN159,100 in Q3 2008.

3 Martin Bouchard resigned from his position as the President and Chief Executive Officer effective as of March 3, 2008 for personal reasons. He was replaced by Marc Ferland.

4 Guy Fauré resigned from his positions as the President, Chief Executive Officer and member of the Board of Directors of the Company effective as of January 31, 2007. In connection with his resignation, the Company paid Mr. Fauré termination compensation and recorded termination costs of CDN\$510,000 in Q1 2007, changed the duration of option agreements and allowed accelerated vesting of options. These changes represented an additional non-cash item expense of approximately US\$ 267,000 which was recorded in Q1 2007.

5 On February 11, 2008, the Company announced the departure of Patrick Hopf, effective February 11, 2008.

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## Option Grants During the Most Recently Completed Financial Year

| Name and Principal Occupation                        | Year | Long Term Compensation            |   |                      | All other Compensation<br>US\$ |
|--|------|-----------------------------------|---|----------------------|--------------------------------|
|  |      | Awards Securities under Options # | Shares or Units Subject to Resale Restrictions (\$) | Payouts LTIP Payouts |                                |
| Marc Ferland   | 2009 | 2,857                             | Nil   | Nil                  | Nil                            |
| President and Chief Executive Officer                | 2008 | 14,286                            | Nil   | Nil                  | 16,245                         |
|  | 2007 | 3,571                             | Nil   | Nil                  | 15,455                         |
| Éric Bouchard <sup>1</sup>                           | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| Vice President - Products                            | 2008 | Nil                               | Nil   | Nil                  | Nil                            |
|  | 2007 | 11,143                            | Nil   | Nil                  | Nil                            |
| Daniel Bertrand <sup>2</sup>                         | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| Executive Vice President and Chief Financial Officer | 2008 | Nil                               | Nil   | Nil                  | 149,420                        |
|  | 2007 | 14,000                            | Nil   | Nil                  | Nil                            |
| Martin Bouchard <sup>3</sup>                         | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| President and Chief Executive Officer                | 2008 | Nil                               | Nil   | Nil                  | Nil                            |
|  | 2007 | 22,143                            | Nil   | Nil                  | Nil                            |
| Guy Fauré <sup>4</sup>                               | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| President and Chief Executive Officer                | 2008 | Nil                               | Nil   | Nil                  | Nil                            |
|  | 2007 | Nil                               | Nil   | Nil                  | 477,182                        |
| Patrick Hopf <sup>5</sup>                            | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| Vice President - Business Development                | 2008 | Nil                               | Nil   | Nil                  | Nil                            |
|  | 2007 | 10,429                            | Nil   | Nil                  | Nil                            |
| David Goldman  | 2009 | 3,571                             | Nil   | Nil                  | Nil                            |
| Chariman of the Board                                | 2008 | 3,428                             | Nil   | Nil                  | 41,455                         |
|  | 2007 | 2,857                             | Nil   | Nil                  | 108,291                        |
| Claire Castonguay <sup>6</sup>                       | 2009 | N/A                               | N/A   | N/A                  | N/A                            |
| Vice President – Finances and Controller             | 2008 | Nil                               | Nil   | Nil                  | Nil                            |
|  | 2007 | 3,143                             | Nil   | Nil                  | Nil                            |
| Dennis Dion  | 2009 | 1,429                             | Nil   | Nil                  | Nil                            |
| Vice President – Sales and Marketing                 | 2008 | 3,571                             | Nil   | Nil                  | Nil                            |
|  | 2007 | N/A                               | N/A   | N/A                  | N/A                            |
| Benoit Godbout                                       | 2009 | 1,429                             | Nil   | Nil                  | Nil                            |
| Vice President – Chief Technology Officer            | 2008 | 4,286                             | Nil   | Nil                  | Nil                            |

|   |      |        |     |     |     |
|---|------|--------|-----|-----|-----|
|   | 2007 | N/A    | N/A | N/A | N/A |
| Jean-Rock Fournier                                    | 2009 | 20,000 | Nil | Nil | Nil |
| Executive Vice President – Chief<br>Financial Officer | 2008 | N/A    | N/A | N/A | N/A |
|   | 2007 | N/A    | N/A | N/A | N/A |

#### Employment Agreements and Change of Control Provisions

During 2009, the Company had employment arrangements and agreements with the following Named Executive Officers. All sums mentioned herein are in Canadian Dollars.

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1 Eric Bouchard did not renew his employment contract which expired on December 31, 2008.

2 Daniel Bertrand resigned from his position as Executive Vice President and Chief Financial Officer on September 8, 2008.

3 Martin Bouchard resigned from his position as the President and Chief Executive Officer effective as of March 3, 2008 for personal reasons. He was replaced by Marc Ferland.

4 Guy Fauré resigned from his positions as the President, Chief Executive Officer and member of the Board of Directors of the Company effective as of January 31, 2007.

5 On February 11, 2008, The Company announced the departure of Patrick Hopf, effective February 11, 2008.

6 Claire Castonguay resigned from her position as Vice President – Finances and Controller as of March 31, 2008.

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David Goldman was Chairman and Chief Executive Officer of the Company until January 12, 2004 when he became the Executive Chairman of the Company. In June 2008, David Goldman resigned as an officer and became Chairman of the Company. During the year ended 2003, Mr. Goldman was not paid any salary or benefits by the Company but rather was rewarded solely through the granting of stock options which are awarded at the discretion of the Nominating, Human Resource and Governance Committee. This position was not considered as a full time position and therefore the level of this award was based solely on the overall achievements and performance of the Company.

On May 1, 2002, the Company entered into a consulting agreement with David Goldman through Dave Goldman Advisors Ltd. These consulting arrangements may be terminated on sixty (60) days' notice by either party. On August 12, 2004, the Company amended the consulting agreement with Dave Goldman Advisors Ltd. As a result, if there is change of control of the Company, Dave Goldman Advisors Ltd. will receive a lump sum payment equal to the greater of the past 24 months consulting payments or CDN \$300,000 if:

- (i) the consultant agreement is terminated;
- (ii) Mr. Goldman does not accept a relocation or to perform a substantial part of his services outside of the greater Montreal area;
- (iii) Mr. Goldman's responsibilities are greatly reduced for which reason he terminates the agreement; or
- (iv) the total compensation offered to the consultant is reduced.

On May 23, 2005, the consulting agreement was further amended to increase the hourly rate of Dave Goldman Advisors Ltd. for services rendered from CDN \$200 to CDN \$250. In June 2008, as Mr. Goldman resigned as an officer and became Chairman of the Company, the consulting agreement was amended to fixed fees of CDN \$7,500 per quarter. Total fees for 2009 were 31,651 2008 were \$41,455 (2007: \$108,291). The transactions are in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

On January 28, 2009, the Board of Director's unanimously approved an adjustment to Mr. David Goldman's consultancy agreement, to which David Goldman concurred, that the change of control clause is amended to an entitlement to the lesser of \$300,000 or 3% of the transaction triggering a change of control. The Board further specified that the resulting payment would be made in the same currency as the transaction itself. The previous agreement stipulated that in the case of change of control, David Goldman was entitled to receive a lump sum payment equal to the greater of the past 24 months consulting payments or CDN \$300,000.

On March 3, 2008, the Company entered into a consulting agreement with Martin Bouchard through 4332903 Canada Inc. This company is remunerated for services rendered on an hourly rate of CDN \$250. These consulting arrangements may be terminated on sixty (60) days' notice by either party. There were no fees for 2008 and 2009.

Éric Bouchard has been Vice President - Products since the acquisition of Copernic Technologies Inc. by the Company. Éric Bouchard signed an employment agreement with the Company on December 22, 2005. Éric Bouchard's annual salary is CDN \$188,200 with an entitlement to short term annual incentive compensation for meeting targeted financial performance, to a maximum of 60% of his base salary for far exceeding targeted performance levels. This compensation package was contractually negotiated at the time of the acquisition of Copernic Technologies Inc. and was approved by the Compensation Committee as it was consistent with the compensation and bonus arrangements with other officers.





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Éric Bouchard's employment agreement provides that in the event of a change of control or sale of the Company, Éric Bouchard may terminate his employment agreement and will be entitled to one year's base salary. The employment agreement also provides that the Company may at any time with or without cause terminate the agreement. In such event, the Company must pay Éric Bouchard the lesser of (i) the base salary of Éric Bouchard from the date of termination until December 31, 2008, and (ii) one year's base salary. Eric Bouchard's employment contract expired on December 31, 2008.

On October 11, 2007, the Company entered into a consulting agreement with Marc Ferland through Gen24 Marketing, a division of 6556027 Canada Inc. The agreement provided for a US \$5,000 per month retainer and 5% commissions on recognized revenue of customers and investment proceeds for a 3-year period received from certain specified customers brought in by Gen24 Marketing to the Company. The consulting agreement is cancellable on thirty (30) days' notice by either party. Total fees for 2009 were nil (2008: \$16,245, 2007:15,454).

The monthly retainer of Gen24 Marketing was increased to \$10,000 for the month of February, 2008 and the consulting agreement was terminated as of February 29, 2008.

On March 3, 2008, Marc Ferland entered into an employment agreement with the Company regarding his appointment as President and Chief Executive Officer for a period ending on April 20, 2010. Pursuant to the terms and conditions of his employment agreement, Mr. Ferland is paid an annual salary of CDN \$250,000 for a period ending on April 20, 2010. Mr. Ferland is also entitled to a bonus for meeting certain financial performance levels, to a maximum of 50% of his base salary. Under his employment agreement, Mr. Ferland received 14,286 stock options under the Company's stock option plan.

Mr. Ferland's agreement was amended on September 30, 2008 by adding a retention incentive bonus equal to one and one-half times his annual salary. The bonus is earned on a monthly basis at the rate of 1/25th per each month (commencing as of March 3, 2008). In addition, Mr. Ferland is also entitled to a bonus of \$125,000 in the event of either a transactional event occurring or the meeting of certain financial performance levels, whichever occurs first. In addition, Mr. Ferland shall be entitled to a \$10,000 bonus for each quarter that certain other financial performance levels are met.

If there is a change in control of the Company, Mr. Ferland will receive a lump sum payment equal to one and a half times his annual base salary if the following occurs within one (1) year of such change in control:

- (i) Mr. Ferland is terminated; or
- (ii) If he does not accept a relocation outside of the Province of Quebec; or
- (iii) If he does not accept an offer of employment at reduced levels of responsibility; or
- (iv) If he does not accept an offer of compensation (including performance/incentive plan targets and long-term compensations) which is less than his current level.
- (v) As of November 12, 2009, Mr. Ferland and Copernic Inc. entered into a second amended and restated employment agreement pursuant to which Mr. Ferland is paid an annual salary of CDN \$250,000 per annual. In the event that any acquisition by the Company takes place during the term of this agreement, Mr. Ferland's annual salary will be increased to CDN 300,000, and his quarterly bonuses will be increased to CDN \$20,000 effective on the closing date of the acquisition.



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Stock Option Plan

In 1999, the Company adopted a new stock option plan (the “Plan”), replacing all previous stock option plans of the Company, to provide eligible officers, directors, employees and consultants of the Company and its subsidiaries compensation opportunities that will encourage share ownership and enhance the Company’s ability to attract, retain and motivate such persons and reward significant performance achievements. Options under the Plan may not be granted with a term exceeding ten years. The exercise price of the options may not be less than the market price of the Company’s common shares determined as of the date the options were granted. Unless the Board determines otherwise, options granted under the Plan are exercisable within 30 days after an optionee ceases to be employed or retained by the Company (other than for reason of cause in which event they terminate immediately, death in which event they are exercisable within three months and disability in which event they are exercisable within one year). The Plan, which was approved by shareholders on June 30, 1999, and subsequently amended as approved by shareholders on June 20, 2000, May 23, 2002 and June 7, 2006 provides that the aggregate number of common shares reserved for issuance under the Plan shall not exceed 200,000 common shares.

During a special meeting of the shareholders on September 11, 2009, the Consolidation of issued and outstanding shares was approved effective as of September 14, 2009. The Consolidation factor was 7:1. As a result, the maximum number of shares reserved for issuance under the Plan went from 1,400,000 to 200,000 common shares.

The granting of options is subject to the further conditions that: (i) the number of outstanding common shares of the Company reserved for options to optionees or issued to optionees within any one year period shall not exceed fifteen percent (15%) of the outstanding common shares of the Company, and (ii) at no time may any optionee hold more than five percent (5%) of the outstanding common shares of the Company under option.

The following table discloses individual grants of options to the Named Executive Officers to purchase or acquire common shares of the Company pursuant to the Plan for the financial year ended December 31, 2009.

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## Aggregate Options Exercised During the Most Recently Completed Financial Year and Financial Year-end Option Values

| Name               | Securities<br>Acquired on<br>Exercise<br>(#) | Aggregate Value<br>Realized<br>(U.S. \$) | Unexercised<br>Options at<br>FY-End<br>(#)<br>Exercisable /<br>Unexercisable | Value of<br>Unexercised<br>in-the-Money<br>Options at FY-<br>End (U.S. \$)<br>Exercisable /<br>Unexercisable | Directors' Fees for<br>Meetings /<br>Committees |
|--------------------|--|--|--|--|---|
| David Goldman      | Nil  | Nil                                      | 14,334 / 21,143  | Nil / Nil  | 41,644  |
| Claude E. Forget   | Nil  | Nil                                      | 5,429 / 10,571   | Nil / Nil  | 34,852  |
| Dr. David Schwartz | Nil  | Nil                                      | 4,239/ 9,381   | Nil / Nil  | 32,211  |
| Irwin Kramer       | Nil  | Nil                                      | 5,429/ 10,571  | Nil / Nil  | 40,091  |
| Marc Ferland       | Nil  | Nil                                      | 7,143/ 20,714  | Nil / Nil  | N/A   |
| Lawrence Yelin     | Nil  | Nil                                      | 3,286/ 9,142   | Nil / Nil  | 29,672  |
| Claire Castonguay  | Nil  | Nil                                      | Nil / Nil  | Nil / Nil  | N/A   |
| Dennis Dion        | Nil  | Nil                                      | 1,191/ 5,000   | Nil / Nil  | N/A   |
| Benoit Godbout     | Nil  | Nil                                      | 1,429/ 5,714   | Nil / Nil  | N/A   |
| Jean-Rock Fournier | Nil  | Nil                                      | Nil / 20,000   | Nil / Nil  | N/A   |

## Option and SAR Repricing

During a special meeting of the shareholders on September 11, 2009, the Consolidation of issued and outstanding shares was approved effective as of September 14, 2009. The Consolidation factor was 7:1. As a result, the Option price was multiplied by this factor.

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## Securities Under Option to Directors and Named Executive Officers as at December 31, 2009

| Names              | Securities Under Options Granted (#) | Exercise or Base Price (US \$/Security) | Market Value of Securities Underlying Options on the Date of Grant (US \$ / Security) | Expiration Date |
|--------------------|--------------------------------------|---|---|-----------------|
| Claude E. Forget   | 3,571                                | 15.96                                   | 15.96   | 11/08/2010      |
| Claude E. Forget   | 1,429                                | 29.68                                   | 29.68   | 06/08/2012      |
| Claude E. Forget   | 2,714                                | 4.34                                    | 4.34  | 06/17/2013      |
| Claude E. Forget   | 2,857                                | 2.17                                    | 2.17  | 06/17/2014      |
| David Goldman      | 7,143                                | 15.96                                   | 15.96   | 11/08/2010      |
| David Goldman      | 4,143                                | 25.06                                   | 25.06   | 11/05/2010      |
| David Goldman      | 2,857                                | 29.68                                   | 29.68   | 06/08/2012      |
| David Goldman      | 3,429                                | 4.34                                    | 4.34  | 06/17/2013      |
| David Goldman      | 3,571                                | 2.17                                    | 2.17  | 06/17/2014      |
| Irwin Kramer       | 3,571                                | 15.96                                   | 15.96   | 11/08/2010      |
| Irwin Kramer       | 1,429                                | 29.68                                   | 29.68   | 06/08/2012      |
| Irwin Kramer       | 2,714                                | 4.34                                    | 4.34  | 06/17/2013      |
| Irwin Kramer       | 2,857                                | 2.17                                    | 2.17  | 06/17/2014      |
| Dr. David Schwartz | 2,381                                | 15.96                                   | 15.96   | 11/08/2010      |
| Dr. David Schwartz | 1,429                                | 29.68                                   | 29.68   | 06/08/2012      |
| Dr. David Schwartz | 2,714                                | 4.34                                    | 4.34  | 06/17/2013      |
| Dr. David Schwartz | 2,857                                | 2.17                                    | 2.17  | 06/17/2014      |
| Marc Ferland       | 3,571                                | 11.69                                   | 11.69   | 09/21/2012      |
| Marc Ferland       | 14,285                               | 7.00                                    | 7.00  | 04/02/2013      |
| Marc Ferland       | 2,857                                | 2.17                                    | 2.17  | 06/17/2014      |
|                    | 3,571                                | 11.69                                   | 11.69   | 09/21/2012      |

|                    |        |      |      |            |
|--------------------|--------|------|------|------------|
| Lawrence Yelin     |        |      |      |            |
| Lawrence Yelin     | 2,714  | 4.34 | 4.34 | 06/17/2013 |
| Lawrence Yelin     | 2,857  | 2.17 | 2.17 | 06/17/2014 |
| Dennis Dion        | 3,571  | 1.54 | 1.54 | 11/11/2013 |
| Dennis Dion        | 1,429  | 2.03 | 2.03 | 06/30/2014 |
| Benoit Godbout     | 3,571  | 4.34 | 4.34 | 06/17/2013 |
| Benoit Godbout     | 714    | 1.54 | 1.54 | 11/11/2013 |
| Benoit Godbout     | 1,429  | 2.03 | 2.03 | 06/30/2014 |
| Jean-Rock Fournier | 3,571  | 1.33 | 1.33 | 03/04/2014 |
| Jean-Rock Fournier | 1,429  | 2.03 | 2.03 | 06/30/2014 |
| Jean-Rock Fournier | 15,000 | 1.98 | 1.98 | 11/13/2014 |

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## Share Ownership

The information with respect to shares beneficially owned, controlled or directed by directors of the Company or Named Executive Officers is in each instance based upon information furnished by the person concerned. The Company's articles of incorporation provide for Common Shares as the only authorized class of shares, all of which have the same rights. Options to acquire shares held by directors or Named Executive Officers, are listed in the above table entitled Securities Under Option to Directors and Named Executive Officers and not included in the information below. To the knowledge of the Company, the following directors and Named Executive Officers hold the following shares of the Company as at March 26, 2010.

| Director/ Named Executive Officer                             | Number of<br>Company<br>Shares Held <sup>1</sup> | % of Total Number<br>of<br>shares Issued<br>and<br>Outstanding |
|---|--|--|
| Marc Ferland, President and Chief Executive Officer, Director | 0  | 0%   |
| Claude E. Forget, Director                                    | 11,429   | 0.5%   |
| David Goldman, Chairman, Director                             | 22,720   | 1.1%   |
| Irwin Kramer, Director  | 286  | 0%   |
| Dr. David Schwartz, Director                                  | 505  | 0%   |
| Éric Bouchard   | 0  | 0%   |
| Lawrence Yelin, Director                                      | 0  | 0%   |
| Claire Castonguay, Vice President, Finance and Controller     | 0  | 0%   |
| Dennis Dion, Vice President, Sales                            | 0  | 0%   |
| Benoit Godbout, Vice President, Chief Technology Officer      | 0  | 0%   |

On May 10, 2007, the Company adopted minimum shareholding requirements for directors and officers. Minimum shareholding requirements are 14,286 shares for the CEO, 5,714 shares for the Chair, 2,857 shares for Executive and Senior Vice Presidents, 1,428 shares for Vice Presidents, and 1,428 shares for directors with current officers and directors having five years from this date to achieve these levels or, for new officers and directors, five years from the effective date of their appointment as the case may be.

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<sup>1</sup> Does not include shares subject to receipt upon exercise of options.



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## Employees

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

| Year | Number of Employees by Category of Activity |          |
|------|---|----------|
|      | Search / Media                              | Software |
| 2009 | 4   | 21       |
| 2008 | 15  | 30       |
| 2007 | 16  | 36       |

## Pension and Retirement Benefits

The Company does not set aside nor accrue any amounts to provide pension, retirement or similar benefits.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## MAJOR SHAREHOLDERS

To the knowledge of the Company, no shareholder currently owns, directly or indirectly, or exercises control or direction over voting securities carrying more than 5% of the voting rights attaching to any class of voting securities of the Company.

The Company's Common Shares are widely held in the United States, Canada and Europe.

To the knowledge of the Company, the Company is not directly or indirectly owned or controlled by another corporation(s), by any foreign government or by any other natural or legal person(s), whether severally or jointly acting as a "group" within the meaning of the United States Securities Exchange Act of 1934, as amended. To the knowledge of the Company, there are no arrangements, which may at a subsequent date result in a change in control of the Company.

## RELATED PARTY TRANSACTIONS

The Company and Dave Goldman Advisors Ltd., a company controlled by Mr. Goldman, entered into a consulting agreement pursuant to which David Goldman provides services as an Executive Chairman at an hourly fee of CDN \$250. In June 2008, as Mr. Goldman resigned as an officer and became Chairman of the Company, the consulting agreement was amended to fixed fees of CDN \$7,500 per quarter.. Total fees for 2008 were \$41,455, (2007 - \$108,291; 2006 - \$141,971). The payment of these sums has been approved by the Compensation Committee. The transactions are in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

The Company and Marc Ferland, a member of the board of directors of the Company, entered into an agreement pursuant to which Marc Ferland performs various sales and marketing projects. He is remunerated \$5,000 per month retainer and 5% commissions on recognized revenue (as per Canadian GAAP) of customers and investment proceeds for a 3 year period brought in by his corporation, Gen24 Marketing, to the Company. Total fees for 2008 were \$16,245 (2007 - \$15,454). On March 3, 2008, Mr. Ferland was appointed President and CEO. The consulting agreement was therefore terminated when Mr. Ferland was appointed President and CEO of the Company.



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INTEREST OF EXPERTS AND COUNSEL

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The audited consolidated financial statements of the Company and certain other financial information of the Company are included under Item 17 of this Annual Report on Form 20-F.

LEGAL OR ARBITRATION PROCEEDINGS

None.

POLICY ON DIVIDEND DISTRIBUTIONS

The Company has never declared or paid dividends on its Common Shares. The Company currently intends to retain any earnings to support its working capital requirements and growth strategy and does not anticipate paying dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

SIGNIFICANT CHANGES

There have been no significant changes since the date of the audited consolidated financial statements of the Company included in this Annual Report on Form 20-F.

Cost Reduction Plan

In Q4 2009, the Company continued to execute its cost reduction plan announced at the end of Q1 2008. Total expenses in 2009, excluding write-downs, termination costs and restructuring costs, were at \$4,486,484 compared to \$6,013,570 in 2008. Total expenses in Q4 2009, excluding write-downs, gain on disposal, termination costs and restructuring costs, were at \$1,118,473 compared to \$1,100,097 in Q4 2008.

In addition, the Company has closed its Montreal office in Q1 2009 and concentrated all its activities in Quebec City.

The total cost of this restructuring which includes termination costs, recruiting fees, lease termination costs and moving expenses, was estimated at approximately \$150,000. In 2008, the Company recorded \$101,012 of restructuring costs. For 2009, an amount of \$33,677 was recorded.

Nomination of Officers

Jean-Rock Fournier, Vice-President Finance since the beginning of Q1 2009, based in Quebec City, has assumed the duties of Chief Financial Officer (CFO) effective March 31, 2009. In addition, since November 12, 2009, Jean-Rock Fournier has assumed responsibility for the operations of the Company as Executive Vice-President.



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Discontinued Operations

On May 14, 2009, the Company announced that it had signed an agreement with Empresario, a privately owned digital media network based in Chicago, Illinois, for the disposal of the assets of Mamma.com and its AD Network (search / media segment) for \$5,000,000. On June 17, 2009, at the Company's Annual General Meeting and Special Shareholders' Meeting, the shareholders approved the proposed transaction which was officially concluded on June 30, 2009. Prior period results have been reclassified to conform with the presentation required for discontinued operations.

ITEM 9. THE OFFER AND LISTING

U.S. and German Trading Markets

The Company's Common Shares are quoted on the NASDAQ Stock Exchange® - Capital Market under the symbol "CNIC" and on the Third Market Segment of the Frankfurt and Berlin stock exchanges in Germany under the symbol "IYS1". On June 21, 2007 following the change of the Company's name to Copernic Inc., the Company's shares began to trade under the symbol CNIC. Prior to June 2007, the Company's shares were quoted under various other trading symbols. With a corporate name change taking effect in August 1996 the Company's Common Share trading symbol was changed to "INTAF" and in April 1999 the symbol was changed to "INTA". On January 12, 2004, following the approval of the change of name of the Company to Mamma.com Inc. the symbol was changed to "MAMA". On July 11, 2001, the Company filed articles of amendment consolidating its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. The Company's Common Shares started trading on the NASDAQ Small Cap Market® on a consolidated basis at the opening of the markets on July 13, 2001.

The following table sets forth the price history of the Company's Common Shares reported on the NASDAQ Stock Market® and on the Third Market Segment of the Frankfurt and Berlin stock exchanges in Germany, which reflect inter-dealer prices without retail mark-ups or commissions and may not represent actual transactions. As per the Explanatory Notes to this Annual Report on Form 20-F, all prices referred to below are adjusted to take into account the July 2007 consolidation of the Company's Common Shares on the basis of 1 post-consolidation common share for every 10 pre-consolidation Common Shares and the September 2009 consolidation of the Company's Common shares on the basis of 1 post-consolidation common share for every 7 pre-consolidation.

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NASDAQ Stock Exchange Capital Market® Annual High and Low Market Prices– 5 Years Ended December 31, 2009  
(based on closing prices)

| Year | High  | Low   |
|------|-------|-------|
| 2009 | 3.79  | 0.91  |
| 2008 | 10.85 | 0.77  |
| 2007 | 41.30 | 9.87  |
| 2006 | 55.65 | 6.79  |
| 2005 | 43.96 | 14.84 |

NASDAQ Stock Exchange Capital Market® Quarterly High and Low Market Prices – 2 Years Ended December 31, 2009 (based on closing prices)

| Quarter End | High  | Low  |
|-------------|-------|------|
| 12/31/09    | 3.79  | 1.70 |
| 9/30/09     | 2.38  | 1.54 |
| 6/30/09     | 3.08  | 1.05 |
| 3/31/09     | 1.40  | 0.91 |
| 12/31/08    | 1.96  | 0.77 |
| 9/30/08     | 3.22  | 1.61 |
| 6/30/08     | 7.91  | 3.08 |
| 3/31/08     | 10.85 | 7.07 |

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NASDAQ Stock Exchange Capital Market® Monthly High and Low Market Prices – 6 Months Ended February 28, 2010 (based on closing prices)

| Month | High | Low  |
|-------|------|------|
| Feb   | 2.92 | 2.50 |
| Jan   | 2.96 | 2.46 |
| Dec   | 3.19 | 2.70 |
| Nov   | 3.79 | 1.90 |
| Oct   | 2.42 | 1.70 |
| Sep   | 2.24 | 1.78 |

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Frankfurt Exchange (based on closing prices) - High and Low Market Prices – 4 Years Ended December 31, 2009 (in euros)

| Year | High  | Low  |
|------|-------|------|
| 2009 | 2.48  | 0.49 |
| 2008 | 7.21  | 0.70 |
| 2007 | 18.55 | 4.20 |
| 2006 | 41.58 | 4.90 |



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Frankfurt Exchange (based on closing prices) Quarterly High and Low Market Prices – 2 Years Ended December 31, 2009 and Latest Quarter (in euros)

| Quarter  | High | Low  |
|----------|------|------|
| 12/31/09 | 2.48 | 1.12 |
| 9/30/09  | 1.47 | 0.87 |
| 6/30/09  | 2.12 | 0.63 |
| 3/31/09  | 1.09 | 0.49 |
| 12/31/08 | 1.68 | 0.70 |
| 9/30/08  | 2.17 | 1.19 |
| 6/30/08  | 4.76 | 1.82 |
| 3/31/08  | 7.21 | 4.20 |

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Frankfurt Exchange (based on closing prices) Monthly High and Low Market Prices – 6 Months Ended February 28, 2010 (in euros)

| Month          | High | Low  |
|----------------|------|------|
| February 2010  | 2.06 | 1.79 |
| January 2010   | 2.00 | 1.67 |
| December 2009  | 2.12 | 1.84 |
| November 2009  | 2.48 | 1.24 |
| October 2009   | 1.68 | 1.12 |
| September 2009 | 1.35 | 0.15 |

Equity Transfer & Trust Company of Toronto, Ontario, Canada acts as registrar and transfer agent for the Company's common shares.

## ITEM 10. ADDITIONAL INFORMATION

## SHARE CAPITAL

Not Applicable.

## MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company was incorporated under the laws of the Province of Ontario on July 5, 1985 as 'Quartet Management Ltd.', and has an Ontario Corporation Number of 630609. By articles of amendment filed on March 27, 1987, the Company changed its name to 'Health Care Products Inc.'. By articles of amendment filed on March 28, 1994, the Company changed its name to 'Celltech Media Inc.'. By articles of amendment filed on June 21, 1995, the Company changed its name to 'Smartel Communications Corporation' and by articles of amendment filed on July 29, 1996, the Company changed its name to 'Intasys Corporation'. On July 11, 2001, the Company filed articles of amendment consolidating its issued and outstanding Common Shares on the basis of one post-consolidation common share for every ten pre-consolidation Common Shares. By articles of amendment filed on January 8, 2004, the Company changed its name to 'Mamma.com Inc.'. By articles of amendment filed on June 14, 2007, the Company changed its name to 'Copernic Inc.'.

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Section 5 of the Company's articles of incorporation indicates that there are no restrictions on the business the Company may carry on or on the powers it may exercise. Pursuant to Section 15 of the Business Corporations Act (Ontario) ("OBCA"), a corporation has the capacity and the rights, powers and privileges of a natural person.

With respect to a material contract, proposal or arrangement between the Company and one or more directors thereof or between the Company and another person of which a director of the Company is a director or in which a director has a material interest, such material contract, proposal or arrangement, as the case may be, is neither void nor voidable by reason only of that relationship or by reason only that a director with an interest in the transaction is present at or is counted to determine the presence of a quorum at a meeting of directors or committee of directors that authorized the transaction, if (i) the director disclosed his or her interest in accordance with the OBCA; (ii) the transaction was approved by the directors or the shareholders of the Company, as applicable; and (iii) it was reasonable and fair to the Company at the time it was approved. Generally, the business corporation laws of the United States vary significantly on this issue from state to state. Delaware Law accords similar treatment (a) if conditions (i) and (ii) above are satisfied or (b) if (iii), without regard to conditions (i) and (ii), is satisfied, except that any ratification by the board must be by a vote of disinterested members.

Neither the Company's articles of incorporation nor its bylaws restrict the directors from exercising any power (in the absence of an independent quorum) to approve their compensation.

The directors of the Company may from time to time, without the authorization of the shareholders:

- (a) borrow money upon the credit of the Company;
- (b) issue, re-issue, sell or pledge debt obligations of the Company, including without limitation, bonds, debentures, notes or other similar obligations of the Company whether secured or unsecured;
- (c) subject to Section 20 of the OBCA, give a guarantee on behalf of the Company to secure performance of any present or future indebtedness, liability or obligation of any person; or
- (d) charge, mortgage, hypothecate, pledge or otherwise create a security interest in all or any currently owned or subsequently acquired, real or personal, moveable or immovable property of the Company, including without limitation, book debts, rights, powers, franchises and undertakings, to secure any present or future indebtedness, liabilities or other obligations of the Company.

Although most progressive U.S. state corporate codes grant similar powers to corporate boards of directors, some U.S. states still require shareholder approval of liens in substantially all of a corporation's assets.

The directors may from time to time, by resolution, delegate any or all of the powers referred to above to a director, committee of directors or one or more officers of the Company. These powers may be varied by enacting a new by-law by resolution of the directors, which by-law must then be subsequently approved at a meeting of shareholders or by shareholder resolution. U.S. state corporate laws establish no general rule concerning directors' ability to delegate such duties. More progressive U.S. state corporate laws such as Delaware's General Corporation Law allow a board of directors to establish a committee of one or more directors and delegate such powers to such committee without a by-law or stockholder approval.

The Company's articles of incorporation do not contain any provisions for the retirement of directors as the result of reaching a certain age limit. The Company's by-laws contain a minimum age requirement of 18 years to be named a director.

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Directors need not be shareholders of the Company.

The Company is authorized to only issue, and its share capital consists of only, Common Shares. Each common share entitles the holder to receive notice of, and to vote on the basis of one vote per common share, at all meetings of shareholders, to receive any dividend declared by the Company on the Common Shares and to receive the remaining property of the Company on its dissolution, liquidation or wind-up. The shareholders do not have the rights to share in the profits of the Company. The laws of most US states vest Common Shares with similar powers. The Company has never and does not have plans to declare any dividends.

In order to change the rights of holders of Common Shares, an amendment to the Company's articles is required. Pursuant to Section 168 of the OBCA, such an amendment can be effected at a meeting of shareholders upon agreement by a majority of the shareholders. Pursuant to Section 170, the holders of shares of a class are entitled to vote separately as a class upon a proposal to amend the articles that would have the effect of altering the rights of that class or altering the rights of that class relative to the other classes of shares. Progressive U.S. state corporate codes generally require similar procedures except that corporate laws such as New York's Business Corporation Law and Delaware's General Corporation Law permit stockholders to authorize such amendments by majority consent in writing, without a meeting, subject to certain limitations.

The annual meeting of shareholders shall be held at such time, day and place as the Board, Chairman of the Board or the President may from time to time determine, provided that an annual meeting must be called not later than 15 months after the holding of the immediately preceding annual meeting. The Board, the Chairman of the Board, the President, the Managing Director or Vice President shall have the power to call a special meeting of shareholders at any time.

In addition, pursuant to Section 105 of the OBCA, the holders of not less than 5% of the issued shares of a corporation that carry the right to vote at a meeting sought to be held, may requisition the directors to call a meeting of shareholders for the purposes stated in the requisition. Such requisition shall state the business to be transacted at the meeting. Although there is no general rule, progressive U.S. state corporation laws provide that the by-laws shall determine stockholders' rights to call stockholder meetings. The directors of a corporation shall call a meeting of shareholders upon receiving the requisition unless a meeting of shareholders has already been called or a record date has been fixed and the appropriate notice has been provided. If the directors do not, within twenty-one days after receiving the requisition, call a meeting and if the above-noted exceptions are not met, any shareholder who signed the requisition may call the meeting.

Notice of the time and place of each meeting of shareholders shall be given not less than 21 nor more than 50 days before the date of the meeting to each director and the auditor of the Company and to each shareholder who, at the close of business on the record date for notice or, if no record date for notice is fixed, at the close of business on the day proceeding the day on which notice is given, is entered in the securities register as the holder of one or more shares of the Company carrying the right to vote at the meeting. For every meeting of shareholders, the Company shall prepare a list of shareholders entitled to receive notice of the meeting, arranged in alphabetical order and showing the number of shares entitled to vote at the meeting held by each shareholder.

The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors and auditors, if any, of the Company and others who, although not entitled to vote, are entitled or required under the OBCA or the articles or by-laws of the Company to be present at the meeting. Any other person may be admitted on the invitation of the Chairman of the meeting or with the consent of the meeting.

There are no restrictions in the Company's articles or by-laws, nor under the OBCA or the provision of the Securities Act (Ontario) or Securities Act (Quebec) limiting the right to own, hold or exercise voting rights on the Company's

securities. Most, if not all U.S. states have enacted some form of takeover disclosure law or business combination act requiring certain disclosures and/or limiting the right to own or vote shares acquired in certain situations including hostile business combinations.

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There are no provisions in the Company's articles or by-laws that would have the effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

Pursuant to the Securities Act (Ontario) (the "Securities Act"), any shareholder holding or exercising control over more than 10% of the voting rights attached to all outstanding voting securities of a Company is considered an insider of that company and among other things is required to disclose any trades in shares of that company. Similarly, Section 16 and Rule 16(a) of the U.S. Securities Exchange Act of 1934 ("1934 Act"), under which the Company is registered, requires holders of 10% or more of the securities of a 1934 Act registered company to file reports disclosing ownership and transactions in that company's securities. The Company, however, currently is deemed a "foreign private issuer" and is exempt from these provisions. Section 101 of the Securities Act requires that any person who acquires beneficial ownership of, or the power to exercise control over, a total of 10% or more of a company's voting or equity securities in any class shall issue a news release and file a report containing the particulars and purpose behind the acquisition. Further reports must be issued every time such person acquires an additional 2% or more of the company's voting or equity securities, or there is a change in any of the material facts disclosed in the former report. Similarly, Section 13(d) and Regulation 13D of the 1934 Act requires any person who acquires beneficial ownership or more than 5% of an equity security of any company registered under the 1934 Act to file a report disclosing the particulars and purpose behind the acquisition. Amendments must be filed to this report every time such person acquires or disposes of 1% or more of the equity security or there is some other material change in the report on file. In addition, Section 14(d) and Regulation 14D of the 1934 Act imposes certain filing and disclosure requirements on persons making "tender offers" for equity securities of a 1934 Act registered company.

The articles of incorporation and by-laws of the Company do not contain any conditions governing changes in the Company's capital that are more stringent than the applicable law.

Pursuant to NASDAQ's Listing Rule 5615(a)(3), the Company has elected to follow Canadian practices in lieu of NASDAQ Listing Rule 5635(d). The Company's practices with regard to these requirements are not prohibited by Canadian Law. Neither the OBCA nor the Securities Act requires shareholder approval for private placements, except in certain limited circumstances. The Company has elected to follow the home country rules with respect to the issuance of shares that may exceed the thresholds established by NASDAQ.

## MATERIAL CONTRACTS

The Company has not entered into any material contracts during the last two fiscal years other than in the ordinary course of business and other than those described in "Item 4 - Information on the Company" or elsewhere in this Annual Report on Form 20-F.

## EXCHANGE CONTROLS

There is no Canadian law, government decree or regulation that restricts the export or import of capital or that affects the remittance of dividends, interest or other payments to a non-resident holder of Common Shares other than withholding tax requirements.

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There is no limitation imposed by Canadian law or by the articles or other charter documents of the Company on the right of a non-resident to hold or vote Common Shares, other than as provided in the Investment Canada Act, as amended (the “Investment Act”). The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust, joint venture or other entity that is not a “Canadian,” as defined in the Investment Act (a “non-Canadian”), unless, after review, the Minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada based on the criteria set out in the Investment Act. Investment in Common Shares of the Company (or other voting shares) by a non-Canadian (other than a “WTO investor,” as defined below) would be reviewable under the Investment Act if it constitutes an acquisition of control of the Company, and the value of the assets of the Company were \$5,000,000 Canadian or more. Such an investment in Common Shares of the Company by a WTO investor would be reviewable under the Investment Act if the value of the assets of the Company equalled or exceeded \$295,000,000 Canadian for investments made in 2008. The Investment Act contains rules to determine if an investment constitutes an acquisition of control of a particular entity. For example, any non-Canadian, whether a WTO investor or otherwise, would acquire control of the Company for purposes of the Investment Act if such non-Canadian acquired a majority of the Common Shares of the Company. The acquisition of less than a majority but at least one-third of the Common shares of the Company is presumed to be an acquisition of control of the Company, unless it could be established that on the acquisition the Company was not controlled in fact by the acquirer through the ownership of Common Shares. In general, an individual is a WTO Investor if such individual is a “national” of a country (other than Canada) that is a member of the World Trade Organization (“WTO Member”) or has a right of permanent residence in relation to that WTO Member. A corporation or other entity is a WTO investor if it is a “WTO Investor-controlled entity” pursuant to detailed rules set out in the Investment Act.

Certain transactions involving Common Shares of the Company would be exempt from the Investment Act, including, without limitation: (a) an acquisition of Common Shares of the Company if the acquisition were made in connection with the person’s business as a trader or dealer in securities; (b) an acquisition of control of the Company’s business in connection with the realization of a security interest granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and (c) an acquisition of control of the Company’s business by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of the Company, through the ownership of voting interests (as defined in the Investment Act), remains unchanged.

## TAXATION

The following is a summary of certain federal income tax provisions applicable to United States corporations, citizens and resident alien individuals who purchase Common Shares and who will hold such shares as capital property for the purpose of the Income Tax Act (Canada) (the “ITA”). This discussion does not purport to deal with all relevant aspects of U.S. or Canadian taxation. Shareholders are advised to consult their own tax advisors regarding the United States income tax consequences of holding and disposing of the Common Shares as well as any consequences arising under state and local tax laws or the tax laws of jurisdictions outside the United States. The summary is based on the assumption that, for Canadian tax purposes and at all relevant times, a holder of Common Shares (a) is neither resident nor deemed to be resident in Canada for the purposes of the ITA, but is resident in the United States for the purposes of the Canada – United States Income Tax Convention (1980) (the “Treaty”); (b) deals at arm’s length with the Company and is not affiliated with the Company; (c) holds the Common Shares as capital property and does not use or hold and is not deemed to use or hold the Common Shares in the course of carrying on a business in Canada; and (d) is not an insurer or a financial institution.

This summary is based on the current provisions of the Treaty and accompanying protocols, the ITA, the regulations under the ITA, specific proposals to amend the ITA or the regulations thereunder announced by the Canadian Minister of Finance prior to the date of this report and our understanding of the current administrative and assessing practices



of the Canada Revenue Agency (or CRA). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account tax laws or considerations of any province or territory of Canada.

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The summary is for general information only and does not take into account the individual circumstances of any particular investor. Therefore, investors are urged to consult their own tax advisors with respect to the tax consequences of an investment in the Common Shares of the Company based on their specific circumstances, including any consequences of an investment in the Common Shares arising under state, local or provincial tax laws of other jurisdictions, including the United States.

For United States federal income tax purposes, a United States corporation, citizen or resident alien generally will realize, to the extent of the Company's current or accumulated earnings and profits, taxable ordinary income (which may, in certain circumstances, in the case of qualified dividend income received by non corporate shareholders before 2011, be taxed at capital gain rates) on the receipt of cash dividends on the Common Shares equal to the gross amount of such dividends without reduction for any Canadian withholding tax. Subject to certain limitations, such withholding tax generally may be credited, against the holder's United States federal income tax liability or, alternatively, may be deducted in computing the holder's United States federal taxable income. Dividends paid on the Common Shares will not be eligible for the "dividends received" deduction, available under certain circumstances to United States corporations.

Dividends paid to a holder on Common Shares, including deemed dividends and stock dividends, will be subject to Canadian non-resident withholding tax, which is generally applicable to dividends paid by a corporation resident in Canada to a resident of the United States. Under the terms of the Treaty, non-resident withholding tax is generally levied at a rate of 15% of the gross amount of the dividend. If, however, the beneficial owner of the dividends is a company resident in the United States for the purposes of the Treaty that owns at least 10% of the voting stock of the Company paying the dividends, the rate of withholding tax under the Treaty is further reduced to 5%. Pursuant to the Treaty, a resident of the United States will be considered to own the voting stock owned by an entity that is considered fiscally transparent under the laws of the United States and that is not a resident of Canada, in proportion to such resident's ownership interest in the fiscally transparent entity.

A holder may be subject to Canadian income tax in respect of any capital gains realized on a disposition or deemed disposition of Common Shares. However, a holder will be exempt from Canadian income tax on a capital gain realized on an actual or deemed disposition of Common Shares unless the Common Shares are "taxable Canadian property" (as defined in the ITA) to the holder at the time of the disposition. Provided the Common Shares are listed on a designated stock exchange for the purposes of the ITA (the National Association of Securities Dealers Automated Quotation System is a designated stock exchange under the ITA), the Common Shares (as well as any interests in or options for Common Shares) will not be "taxable Canadian property" to a holder, unless the holder, persons with whom the holder did not deal at arm's length for the purposes of the ITA or the holder together with such persons owned 25% or more of the shares of any class or series of the capital stock of the Company at any time during the 60-month period immediately preceding the disposition or deemed disposition of the Common Shares. In the event that the Common Shares are not listed on a designated stock exchange, the Common Shares will be, subject to the comments below, "taxable Canadian property" for the purposes of the ITA. The Common Shares may be deemed to be "taxable Canadian property" where the holder acquired them in certain circumstances, including upon the disposition of other "taxable Canadian property". Proposed amendments to the definition of "taxable Canadian property", announced as part of the March 4, 2010 Federal Budget measures, will significantly narrow this definition. Pursuant to the proposed amended definition, shares of a corporation that is not listed on a designated stock exchange will be taxable Canadian property only if, at that time, or at any time in the previous 60 month period, more than 50% of the fair market value of the share was derived, directly or indirectly, for one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options or respect of properties described at (i) to (iii). In the event that the Common Shares do constitute "taxable Canadian property", one half of a capital gain realized by a holder must be included in the income of a holder while one half of any capital loss realized by a holder is deductible against the taxable portion of capital gains realized in the three preceding years or in subsequent years, subject to the rules of the ITA, however, any capital gain realized on their disposition by a holder

may be exempt from Canadian tax pursuant to the provisions of the Treaty. The ITA provides for a withholding procedure under which a purchaser of taxable Canadian property from a non-resident of Canada is required to withhold certain amounts from the purchase price. In certain circumstances, a “clearance certificate” may be obtained that relieves, wholly or in part, the purchaser’s obligation to withhold on the purchase price. As long as any income or gain from the disposition or deemed disposition of the Common Shares would be exempt from tax under Part 1 of the ITA due to the application of the Treaty, the withholding requirements and the clearance certificate process may not apply. Holders of Common Shares must consult their own tax advisers to determine if any such Canadian income tax must be paid.

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For United States federal income tax purposes, upon a sale or exchange of a Common Share, a holder will recognize gain or loss equal to the difference between the amount realized on such sale or exchange and the holder's tax basis in such common share. For non-corporate taxpayers, the maximum tax rates currently imposed are 15% on net long-term capital gains and 35% on net short-term capital gains and ordinary income. US capital gains may result in additional taxes by application of the Alternative Minimum Tax. As a taxpayer's income rises, US federal income tax law phases-out US personal exemptions and increasingly limits the availability of itemized deductions which may increase the effective tax rates. The deduction of net capital losses against ordinary income currently is severely limited under US federal income tax law. Holders of Common Shares must consult their own tax advisers to determine the effect of federal, state and local income taxes upon a sale or exchange of Common Shares.

## DOCUMENTS ON DISPLAY

Documents concerning the Company which are referred to in the document and otherwise available for public inspection may be inspected at the executive offices of the Company as well as the executive or operating offices of the Company's operating subsidiaries. Any request for inspection must be made in writing addressed to the Company's executive offices to the attention of Mr. Marc Ferland, President and Chief Executive Officer. Such request must explicitly identify the person making the request, the documents pertaining to the request as well as the date and time that the person making such request desires to inspect such documents. The Company reserves all rights to refuse or limit a request.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## CURRENCY RISK

The Company is exposed to foreign exchange rate risk in that a higher proportion of the expenses are denominated in foreign currencies relative to revenue. Accordingly, the results are affected, and may be affected in the future, by exchange rate fluctuations of the foreign currencies relative to the US dollar.

The Company does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

The following table provides an indication of the Company's significant foreign exchange currency exposures:

## US\$ Currency

|  | As at December 31, |     |        |     |         |         |        |        |
|--|--------------------|-----|--------|-----|---------|---------|--------|--------|
|  | 2009               |     |        |     | 2008    |         |        |        |
|  | CDN                | GBP | EUR    | AUD | CDN     | GBP     | EUR    | AUD    |
| Cash                                     | 27,523             |     | -      | -   | 46,007  | -       | -      | -      |
| Accounts receivable                      | 116,033            |     | 78,758 | -   | 49,805  | 127,051 | 72,728 | 29,929 |
| Accounts payable and accrued liabilities | 887,465            |     | -      | -   | 687,746 | -       | -      | -      |
| Obligations under capital leases         | 58,536             |     | -      | -   | 97,259  | -       | -      | -      |

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The following exchange rates were applied during the years 2009 and 2008:

|                       | 2009         |                | 2008         |                |
|-----------------------|--------------|----------------|--------------|----------------|
|                       | Average Rate | Reporting Date | Average Rate | Reporting Date |
| \$CDN per \$US        | 0.8802       | 0.9532         | 0.9443       | 0.8183         |
| \$Australian per \$US | 0.7924       | 0.8931         | 0.8531       | 0.6907         |
| GBP per \$US          | 1.5659       | 1.5928         | 1.8552       | 1.4470         |
| EUR per \$US          | 1.3946       | 1.4333         | 1.4712       | 1.4097         |

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5% (1% in 2008 and 2007) weakening of the US dollar would have increased the net earnings by approximately \$123,000, compared to the increase of the net loss of \$61,000 in 2008 and \$255,000 in 2007, assuming that all other variables remained constant. An assumed 5% (1% in 2008 and 2007) strengthening of the US dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**INTEREST RATE RISK**

The Company is subject to interest rate risk on its cash and cash equivalents and temporary investments. The risk that the Company will realize a loss as a result of the decline in the fair value of its cash equivalents and temporary investments is limited because these investments can be withdrawn at any time.

The Company's exposure to interest rate risk is as follows:

|                                 | Maturity                  | 2009 Interest rate | 2008 Interest rate |
|---------------------------------|---------------------------|--------------------|--------------------|
| Cash and cash equivalents       | Less than 30 days         | 0.049% to 0.263%   | 0.9% to 3.3%       |
| Temporary investments           | 120 days and more         | 0.8% to 1.75%      | 0.9% to 3.3%       |
| Mutual funds                    | Withdrawal at any time    | 0.12%              | -                  |
| Obligations under capital lease | 5 years (4 years in 2008) | 10.41% to 33.45%   | 10.41% to 13.08%   |
|                                 |                           |                    | -                  |

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

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PART II

ITEM 13.  
DEFAULTS,  
DIVIDEND  
ARREARAGES  
AND  
DELINQUENCIES

Not applicable.

ITEM 14.  
MATERIAL  
MODIFICATIONS  
TO THE RIGHTS  
OF SECURITY  
HOLDERS AND  
USE OF  
PROCEEDS

Not applicable.

ITEM 15.  
CONTROLS  
AND  
PROCEDURES

Controls and Procedures

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Disclosure Controls and Procedures

We are responsible for establishing and maintaining a system of disclosure controls and procedures, as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934, (the "Exchange Act") designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as to the effectiveness of our disclosure controls and procedures as of December 31, 2009.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

#### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) of the Exchange Act as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any assessment of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control — Integrated Framework.”

Based on our evaluation under the framework in Internal Control-Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

It should be noted that while management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated whether there were changes to its internal control over financial reporting during the year 2009 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting. In spite of the change of CFO, no such significant changes were identified through their evaluation.

It should be noted that while management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

This report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the S.E.C. that permit the Company to provide only management’s report in this report.

ITEM 16. AUDIT  
COMMITTEE  
FINANCIAL EXPERT

ITEM 16A. AUDIT  
COMMITTEE  
FINANCIAL EXPERT

The Company’s board of directors has determined that a member of its Audit Committee, Mr. Irwin Kramer, an independent director (as defined in the Rules of the National Association of Securities Dealers, Inc.), is an Audit Committee financial expert as defined in Item 16A of Form 20-F.





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OF ETHICS

The Company's board of directors has adopted a Code of Ethics that applies to all of the Company's employees, including the Chairman, Chief Executive Officer, Chief Financial Officer, principal accounting officer and persons performing similar functions.

ITEM 16C.  
PRINCIPAL  
ACCOUNTANT  
FEES AND  
SERVICES

Raymond Chabot Grant Thornton LLP has served as the Company's independent public accountants to audit our financial statements for the fiscal year ended December 31, 2009. RSM Richter Chamberland has served as the Company's independent public accountants to audit our financial statements for the fiscal years ended December 31, 2008 and 2007.

The following table presents the aggregate fees billed for professional services and other services rendered by Raymond Chabot Grant ThorntonLLP. in 2009.

|                       | 2009           | 2008              | 2006              |
|-----------------------|----------------|-------------------|-------------------|
| Audit Fees(1)         | 125,763        | \$ 219,205        | \$ 175,096        |
| Audit Related Fees(2) | 23,027         | \$ 68,237         | \$ 115,108        |
| Tax Fees(3)           | -              | -                 | -                 |
| Other Fees(4)         | -              | -                 | -                 |
| <b>TOTAL:</b>         | <b>148,790</b> | <b>\$ 287,443</b> | <b>\$ 290,204</b> |

These fees are subject to a pre-approval policy.

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the audit of its financial statements; comfort letters and consents; attest services; and services associated with the filing of documents with the SEC.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; due diligence related to acquisitions.
- (3) Tax Fees include fees billed for tax compliance services, advice on original and amended tax returns and claims for refund, tax consultations (such as assistance in connection with tax audits and appeals), tax advice related to mergers and acquisitions, transfer pricing, tax planning services and expatriate tax planning and services.

- (4).                      Related to assistance for SOX compliance

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PROCEDURES FOR APPROVAL OF AUDIT AND NON-AUDIT SERVICES BY THE EXTERNAL AUDITORS

I. Audit Committee Pre-Approval of Services

In accordance with the requirements of securities regulations to which the Company is subject and to safeguard the continued independence of its external auditors, all audit and non-audit services to be rendered by the Company's external auditors and any related entities (the "Auditors") to the Company, its subsidiaries and any material related companies over which the Company exercises significant influence must be the subject of pre-approval by the Audit Committee of the Board.

Such pre-approval shall be based on the following detailed policies and procedures established by the Audit Committee.

II. Services that the Auditors may not Provide

The Auditors may not act in any capacity where they could reasonably be seen to:

function in the role of the Company's management;

audit their own work; or

serve in an advocacy role on behalf of the Company

Except as otherwise permitted and pre-approved hereby, the Auditors will not be asked to provide any services in the following areas (in each case as more fully defined in applicable corporate and securities regulations or the regulations and guidelines of the appropriate oversight authorities governing the accounting and auditing profession):

1. Bookkeeping and related functions;
2. Financial information systems design and implementation;
3. Appraisal, valuation, fairness opinions or contribution-in-kind reports;
4. Actuarial services;
5. Internal audit outsourcing;
6. Management functions and human resources functions;
7. Broker-dealer, investment advisor or investment banking services;
8. Legal services;
9. Expert services; and
10. Management consulting services.



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III. Pre-Approval of a Range of Services

The engagement for the annual audit of the Company's consolidated financial statements is specifically approved on an annual basis by the execution of the audit engagement letter with the Auditors. Subject to paragraph IV below, engagements of the Auditors involving services for any of the Company's entities that fall into the following service definitions are pre-approved by the Audit Committee.

| Type of Service              | Description   |
|------------------------------|---|
| <br>Audit Services           |   |
| Financial statement audit    | Recurring audit of consolidated financial statements including subsidiary company and statutory audits and tax services and accounting consultations required to perform an audit in accordance with Generally Accepted Auditing Standards. |
| Regulatory financial filings | Services relating to 1933 and 1934 filings with the SEC including issuance of comfort letters. Statutory and regulatory filings including prospectuses and registration statements.   |
| 404 attestation services     | Attestation services relating to the report on the entity's internal controls as specified in Section 404 of the Sarbanes-Oxley Act and any similar requirements that may be introduced under Canadian legislation/regulations.             |
| <br>Audit Related Services   |   |
| Employee benefit plan audits | Audit of pension and other employee benefit plans and funds.  |

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|  |  |
|--|--|
| Financial due diligence in connection with acquisitions and divestitures | Assistance in financial and tax due diligence, including review of financial statements, financial data and records, tax returns, tax forms and tax filings, discussion with target's finance and accounting personnel. Accounting consultation and audits in connection with acquisitions and divestitures.   |
| Other attest services  | Attest services that are not required by statute or regulation. Quarterly reviews.   |
| Application and general control reviews                                  | Review of IT and general controls related to specific applications, including overall general computer controls, excluding those that are a part of the financial statement audit.   |
| Consultation regarding GAAP  | Discussions, review and testing of impact of new pronouncements, acquisition accounting, and other GAAP topics.  |
| Tax Services   |  |
| Tax compliance   | Preparation and/or review of income, capital, sales, use, property, excise, local, value added (VAT) and GST tax returns, filings and forms. Consultation regarding handling of items for tax returns, required disclosures, elections, and filing positions available.  |
| Tax consulting   | Assistance with tax audits, examinations or requests for information. Responding to requests regarding technical interpretations, applicable laws and regulations, and tax accounting. Tax advice on mergers, acquisitions, restructurings, financings, inter-company transactions, foreign tax credits, foreign income tax, tax accounting, foreign earnings and profits, capital tax, sales tax, use tax, property tax, the treatment in any jurisdiction of foreign subsidiary income, VAT, GST, excise tax or equivalent taxes in the jurisdiction. Assistance with tax appeals that are not in front of a tax court or its equivalent. Advice regarding tax legislation or codes including interpretations, procedures and advance tax rulings or private letter rulings thereof, or their equivalent, in applicable jurisdictions in the following areas: income, capital, sales, use, property, excise, local, value added (VAT) and GST taxes. |

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|                         |  |
|-------------------------|--|
| Transfer pricing        | Advice and assistance with respect to transfer pricing matters, including preparation of reports used by the company to comply with taxing authority documentation requirements regarding royalties, services and inter-company pricing and assistance with tax exemptions.  |
| Customs and duties      | Compliance reviews and advice on compliance in the areas of tariffs and classification, origin, pricing, and documentation. Assistance with customs audits or requests for information.  |
| Expatriate tax services | Preparation of individual income tax returns, advice on impact of changes in local tax laws and consequences of changes in compensation programs or practices. Compliance and advice in relation to benefits and compensation, stock options, and tax equalization policies. |
| Other Services          |  |
| Valuation               | Valuation services for non-financial reporting in connection with tax-only valuations and valuation services to review and comment on tax-related valuations prepared by the Company or third parties.   |
| Other                   | Fact finding services and forensic investigations under the supervision of the audit committee; environmental audits; non-financial systems design and implementation.   |



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IV. Limits on the Pre-Approval of a Range of Services

In the case of proposed engagements of the Auditors involving any of the services covered under the range of services under paragraph III where the fees for a particular engagement are expected to exceed a total of CDN \$5,000, specific pre-approval must be obtained therefore under the provisions of paragraph V hereof.

The general pre-approval of the range of services covered under paragraph III will be brought to the Audit Committee for review and, if thought appropriate, renewal on an annual basis.

In respect of services under paragraph III where the fees for a particular engagement are expected to be less than or equal to a total of CDN \$5,000, the Chairman of the Audit Committee shall be notified expeditiously of any such services commenced by the Auditors.

In the event that services under paragraph III are commenced by the Auditors where the fees for a particular engagement were expected to be less than or equal to a total of CDN \$5,000, specific pre-approval must be obtained therefore under the provisions of paragraph V hereof if such fees are later expected to exceed a total of CDN \$5,000.

V. Pre-Approval of Individual Services

The Company's management and/or the Auditors may seek pre-approval by the Audit Committee of the engagement of the Auditors to provide particular services in certain cases.

Where particular pre-approval is required, the Audit Committee has delegated the authority to effect such pre-approval to the Chairman of the Committee.

Under no circumstances may the Audit Committee delegate its responsibilities to Company management.

For greater certainty, if an engagement with the Auditors for a particular service is contemplated that is neither forbidden under paragraph II hereof, nor covered under the range of services under paragraph III hereof, in order for such engagement to proceed it must be the subject of individual pre-approval under this paragraph.

It is the responsibility of management to determine whether a particular service is covered by the pre-approved range of services. Management should seek the guidance of the audit committee chair where there is any ambiguity about whether a particular service is pre-approved.

VI. Engagement Letters

Pre-approved non-audit services shall be provided by the Auditors pursuant to an engagement letter with the appropriate Company entity that satisfies each of the following requirements:

1. The engagement letter shall be in writing and signed by the Auditors,; and
2. the engagement letter shall set out the particular non-audit services to be provided by the Auditors which, unless individually pre-approved, shall be within the categories of pre-approved non-audit services described in paragraph III hereof.

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VII. Reports of Services to the Audit Committee

At every regularly-scheduled meeting of the Audit Committee, management shall report on all new pre-approved engagements of the Auditors since the last such report. The Auditors may comment on the report if they wish to do so. All engagement letters entered into pursuant hereto shall be made available to the Audit Committee upon demand.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 17. FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). There are certain measurement differences between Canadian GAAP and U.S. GAAP. Differences which relate to the Company are summarized in note 23 to our consolidated financial statements.

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Independent Registered Public Accounting Firm's Report

To the Shareholders of Copernic Inc.

We have audited the consolidated balance sheet of Copernic Inc. (the "Company") as of December 31, 2009 and the consolidated statements of operations, shareholders' equity 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 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Company as at December 31, 2008 and 2007 and for the years then ended, before the effects of the reclassifications of the discontinued operations described in Note 4 ("the reclassifications"), were audited by other auditors whose report, dated March 27, 2009, expressed an unqualified opinion on those statements. We have audited the reclassifications on the 2008 and 2007 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2008 and 2007 consolidated financial statements of the Company other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2008 and 2007 consolidated financial statements taken as a whole.

/s/ RAYMOND CHABOT GRANT THORNTON LLP 1

Montréal, Canada, March 26, 2010

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1 Chartered accountant auditor permit no. 20154

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To the Shareholders and Board of Directors of Copernic Inc.

We have audited the accompanying consolidated balance sheet of Copernic Inc. as at December 31, 2008 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting at December 31, 2008 included in item 15 of Form 20-F for the year ended December 31, 2008 and, accordingly, we do not express an opinion thereon.

Montreal, Canada

March 27, 2009, except for note 4 which is dated June 30, 2009

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1 CA auditor permit no14671

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Copernic Inc.  
Consolidated Balance Sheets  
As at December 31, 2009 and 2008

| (expressed in U.S. dollars)                                   | 2009<br>\$   | 2008<br>\$   |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Current assets  |              |              |
| Cash  | 465,949      | 1,066,817    |
| Temporary investments (Note 5)                                | 3,504,930    | 4,006,115    |
| Accounts receivable (Note 6)                                  | 256,110      | 907,560      |
| Income taxes receivable                                       | 337,802      | 110,121      |
| Balance of sale receivable (Note 4)                           | 655,131      | -            |
| Prepaid expenses  | 118,149      | 170,864      |
|   | 5,338,071    | 6,261,477    |
| Balance of sale receivable (Note 4)                           | 3,694,060    | -            |
| Property and equipment (Note 7)                               | 115,110      | 240,094      |
| Intangible assets (Note 8)                                    | 202,597      | 918,485      |
| Goodwill (Note 8)   | 3,362,003    | 3,362,003    |
|   | 12,711,841   | 10,782,059   |
| <b>Liabilities</b>  |              |              |
| Current liabilities   |              |              |
| Accounts payable and accrued liabilities (Note 9)             | 1,010,140    | 991,142      |
| Deferred revenue  | 103,668      | 156,789      |
| Deferred rent   | 1,534        | 4,805        |
| Current portion of obligations under capital leases (Note 10) | 50,630       | 57,267       |
|   | 1,165,972    | 1,210,003    |
| Obligations under capital leases (Note 10)                    | 7,906        | 39,992       |
| Future income taxes (Note 11)                                 | 45,146       | 259,848      |
| Commitments (Note 12)   |              |              |
| <b>Shareholders' Equity</b>                                   |              |              |
| Capital stock (Note 13)                                       |              |              |
| Authorized  |              |              |
| Unlimited number of common shares, no par value               |              |              |
| Issued and outstanding  |              |              |
| 2,091,437 common shares                                       | 96,556,485   | 96,556,485   |
| Contributed Surplus   | 5,853,737    | 5,747,028    |
| Accumulated other comprehensive income                        | 561,137      | 561,137      |
| Accumulated deficit   | (91,478,542) | (93,592,434) |
|   | 11,492,817   | 9,272,216    |
|   | 12,711,841   | 10,782,059   |

See accompanying notes.

Approved by the Board of Directors

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

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



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Copernic Inc.  
Consolidated Statements of Operations  
For the years ended December 31

(expressed in U.S. dollars)

|   | 2009        | 2008         | 2007         |
|---|-------------|--------------|--------------|
|   | \$          | \$           | \$           |
| Revenues (Note 14)  | 1,653,026   | 2,218,264    | 1,702,256    |
| Cost of revenues  | 62,304      | 105,338      | 106,511      |
| Gross Margin  | 1,590,722   | 2,112,926    | 1,595,745    |
| Expenses  |             |              |              |
| Marketing, sales and services   | 625,243     | 386,486      | 806,791      |
| General and administration  | 2,329,947   | 2,907,964    | 4,691,572    |
| Product development and technical support (Note 15)                             | 1,125,102   | 1,836,986    | 2,198,673    |
| Amortization of property and equipment  | 117,909     | 89,169       | 138,515      |
| Amortization of intangible assets   | 720,729     | 980,285      | 1,941,771    |
| Write-downs and settlement costs (Note 16)                                      | 10,924      | 4,381,840    | 9,300,001    |
| Restructuring charges (Note 17)   | 33,677      | 101,012      | -            |
| Interest and other income   | (333,979 )  | (162,880 )   | (401,183 )   |
| Gain on disposal of an investment (Note 16)                                     | (169,239 )  | -            | -            |
| Loss (gain) on foreign exchange   | 70,772      | (24,440 )    | 115,071      |
|   | 4,531,085   | 10,496,422   | 18,791,211   |
| Loss from continuing operations before income taxes and discontinued operations | (2,940,363) | (8,383,496 ) | (17,195,466) |
| Current income taxes  | 1,498       | 522          | 1,479        |
| Future income taxes   | (656,347 )  | (854,914 )   | (1,735,769 ) |
| Recovery of income taxes (Note 11)  | (654,849 )  | (854,392 )   | (1,734,290 ) |
| Loss from continuing operations   | (2,285,514) | (7,529,104 ) | (15,461,176) |
| Results of discontinued operations, net of income taxes (Note 4)                | 4,399,406   | 1,038,400    | 1,030,350    |
| Net earnings (loss) for the year  | 2,113,892   | (6,490,704 ) | (14,430,826) |
| Basic and diluted loss / share - continuing operations (Note 18)                | (1.09 )     | (3.60 )      | (7.43 )      |
| Basic and diluted earnings / share - discontinued operations (Note 18)          | 2.10        | 0.50         | 0.50         |
| Basic and diluted net earnings (loss) / share                                   | 1.01        | (3.10 )      | (6.93 )      |

See accompanying notes.





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Copernic Inc.  
 Consolidated Statements of Shareholders' Equity  
 For the years ended December 31

(expressed in U.S. dollars)

|   | Number<br>of<br>Common<br>Shares | Common<br>Shares<br>\$ | Contributed<br>Surplus<br>\$ | Accumulated<br>Other<br>Comprehensive<br>Income<br>\$ | Accumulated<br>Deficit<br>\$ | Total<br>\$  |
|---|----------------------------------|------------------------|------------------------------|---|------------------------------|--------------|
| Balance, December 31, 2006                      | 2,049,049                        | 95,298,234             | 5,706,183                    | 561,137   | (72,670,904)                 | 28,894,650   |
| Stock-based compensation                        |                                  |                        | 407,076                      |   |                              | 407,076      |
| Comprehensive income:                           |                                  |                        |                              |   |                              |              |
| Net loss for the year                           |                                  |                        |                              |   | (14,430,826)                 | (14,430,826) |
| Comprehensive income                            |                                  |                        |                              |   | (14,430,826)                 | (14,430,826) |
| Options exercised                               | 42,388                           | 1,258,251              | (581,993 )                   |   |                              | 676,258      |
| Options which conditions have changed (Note 13) |                                  |                        | 253,236                      |   |                              | 253,236      |
| Balance, December 31, 2007                      | 2,091,437                        | 96,556,485             | 5,784,502                    | 561,137   | (87,101,730)                 | 15,800,394   |
| Stock-based compensation                        |                                  |                        | (37,474 )                    |   |                              | (37,474 )    |
| Comprehensive income:                           |                                  |                        |                              |   |                              |              |
| Net loss for the year                           |                                  |                        |                              |   | (6,490,704 )                 | (6,490,704 ) |
| Comprehensive income                            |                                  |                        |                              |   | (6,490,704 )                 | (6,490,704 ) |
| Balance, December 31, 2008                      | 2,091,437                        | 96,556,485             | 5,747,028                    | 561,137   | (93,592,434)                 | 9,272,216    |
| Stock-based compensation                        |                                  |                        | 106,709                      |   |                              | 106,709      |
| Comprehensive income:                           |                                  |                        |                              |   |                              |              |
| Net earnings for the year                       |                                  |                        |                              |   | 2,113,892                    | 2,113,892    |
| Comprehensive income                            |                                  |                        |                              |   | 2,113,892                    | 2,113,892    |
| Balance, December 31, 2009                      | 2,091,437                        | 96,556,485             | 5,853,737                    | 561,137   | (91,478,542)                 | 11,492,817   |

See accompanying  
notes.

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Copernic Inc.  
Consolidated Statements of Cash Flows  
For the years ended December 31

(expressed in U.S. dollars)

|   | 2009        | 2008        | 2007         |
|---|-------------|-------------|--------------|
|   | \$          | \$          | \$           |
| <b>Cash flows from (used for)</b>                             |             |             |              |
| <b>Operating activities</b>                                   |             |             |              |
| Loss from continuing operations                               | (2,285,514) | (7,529,104) | (15,461,176) |
| Adjustments for   |             |             |              |
| Amortization of property and equipment                        | 117,909     | 89,169      | 138,515      |
| Amortization of intangible assets                             | 720,729     | 980,285     | 1,941,771    |
| Employee stock-based compensation                             | 106,709     | 8,249       | 617,723      |
| Write-down of goodwill (Note 16)                              | -           | 3,995,000   | 8,060,841    |
| Write-down of intangible assets (Note 16)                     | 1,462       | 343,768     | 1,139,160    |
| Write-down of investment                                      | -           | -           | 150,000      |
| Write-down of property and equipment (Note 16)                | 9,462       | 43,072      | -            |
| Gain on disposal of an investment                             | (169,239 )  | -           | -            |
| Future income taxes   | (656,347 )  | (854,914 )  | (1,735,769 ) |
| Accreted interest on balance of sale receivable               | (200,823 )  | -           | -            |
| Unrealized loss (gain) on foreign exchange                    | 10,529      | (25,201 )   | 12,813       |
| Net change in non-cash working capital items (Note 19)        | 130,297     | (391,011 )  | 65,905       |
| Cash used for operating activities from continuing operations | (2,214,826) | (3,340,687) | (5,070,217 ) |
| Cash provided by discontinued operations (Note 4)             | 1,051,219   | 1,620,116   | 3,536,074    |
| Cash used for operations                                      | (1,163,607) | (1,720,571) | (1,534,143 ) |
| <b>Investing activities</b>                                   |             |             |              |
| Proceeds on the disposal of an investment                     | 169,239     | -           | -            |
| Purchase of intangible assets                                 | (14,373 )   | (5,054 )    | (68,433 )    |
| Purchase of property and equipment                            | (30,627 )   | (15,879 )   | (149,658 )   |
| Decrease in temporary investments                             | 3,005,227   | 960,157     | 1,626,458    |
| Cash provided by (used for) continuing operations             | 3,129,466   | 939,224     | 1,408,367    |
| Cash used in discontinued operations (Note 4)                 | (579 )      | -           | -            |
| Cash provided from (used for) investing activities            | 3,128,887   | 939,224     | 1,408,367    |
| <b>Financing activities</b>                                   |             |             |              |
| Issuance of capital stock                                     | -           | -           | 676,258      |
| Repayment of obligations under capital leases                 | (62,106 )   | (57,976 )   | (23,071 )    |

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|   |           |             |              |
|---|-----------|-------------|--------------|
| Cash provided from (used for) financing activities  | (62,106 ) | (57,976 )   | 653,187      |
| Net change in cash and cash equivalents during the year   | 1,903,174 | (839,323 )  | 527,411      |
| Cash and cash equivalents – Beginning of year   | 2,067,705 | 2,907,028   | 2,379,617    |
| Cash and cash equivalents – End of year   | 3,970,879 | 2,067,705   | 2,907,028    |
| Cash and cash equivalents comprise:   |           |             |              |
| Cash  | 465,949   | 1,066,817   | 596,493      |
| Temporary investments (Note 5)  | 3,504,930 | 4,006,115,  | 5,468,451    |
| Less: Temporary investments with maturity date in excess of 3 months from date of issuance (Note 5) | -         | (3,005,227) | (3,965,384 ) |
|   | 3,970,879 | 2,067,705   | 2,099,560    |
| Restricted cash   | -         | -           | 807,468      |
|   | 3,970,879 | 2,067,705   | 2,907,028    |
| Supplemental cash flow information - continuing operations  |           |             |              |
| Cash paid for interest  | 9,597     | 17,314      | 7,426        |
| Cash paid for income taxes  | 1,498     | 522         | 1,479        |

See accompanying notes

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Copernic Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009, 2008 and 2007

(expressed in U.S. dollars)

1 Nature of Business

Copernic Inc. specializes in developing, marketing and selling cutting-edge search technology, providing innovative home and business software products and solutions for desktop, web and mobile users, through its online property [www.copernic.com](http://www.copernic.com).

2 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. There are certain measurement differences between Canadian GAAP and United States generally accepted accounting principles (“U.S. GAAP”). Differences which relate to the Company are summarized in Note 23.

a) Basis of Presentation

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

b) Use of Estimates

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

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and highly liquid investments with an initial term of three months or less.

d) Income Tax Credits

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

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## e) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

## Held for Trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash and temporary investments (mutual funds) are classified as held for trading.

## Held-to-Maturity

Non derivative financial assets that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. During 2009 and 2008, temporary investments other than investments in mutual funds were classified as held-to-maturity.

## Loans and Receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. Accounts receivable and balance of sale receivable are classified as loans and receivables.

## Other Financial Liabilities

Other financial liabilities are accounted for at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities are classified as other financial liabilities.

## f) Transaction Costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities that are classified as held for trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

## g) Property and Equipment

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

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Computer equipment     | Declining balance | 50%               |
| Furniture and fixtures | Declining balance | 33%               |
| Leasehold improvements | Straight-line     | Duration of lease |



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## h) Intangible Assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization and impairment charge. The Company provides for the amortization of intangible assets over their estimated useful lives using the following methods and annual rates:

|                        |                   |     |
|------------------------|-------------------|-----|
| Trade names            | Straight-line     | 14% |
| Technology             | Straight-line     | 25% |
| Customer relationships | Straight-line     | 33% |
| Patents                | Straight-line     | 10% |
| Software               | Declining balance | 50% |

Research costs are expensed as incurred. Development costs are also expensed as incurred unless such costs meet the criteria under generally accepted accounting principles for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product which the Company intends to produce and market, there must be a clearly defined market for the product, and the Company must have the resources, or access to the resources, necessary to complete the development. The Company has not deferred any such development costs during the years ended December 31, 2009 and 2008.

## i) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually on December 31 of each year or more often if events or changes in circumstances indicate that it might be impaired. The impairment test first consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. Any impairment loss is charged to earnings in the period in which the loss is incurred. Management's determination of the fair value incorporates multiple inputs including discounted cash flow calculations, peer company price to earnings multiples, the level of the Company's share price and assumptions that market participants would make in valuing the reporting unit. Other assumptions include levels of economic capital, future business growth, earnings projections and weighted average cost of capital used for purpose of discounting. Decreases in the amount of economic capital allocated to a reporting unit, decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause the reporting unit's fair value to decrease. The Company completed its annual goodwill assessment as of December 31, 2009.

## j) Impairment of Long-Lived Assets

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

## k) Revenue Recognition

Search advertising, graphic advertising, software licensing, subscription fees, customized development and maintenance support revenues are recognized when services are rendered, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is considered probable, and fees are not subject to forfeiture, refund or other concessions.





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With respect to search advertising and graphic advertising revenues, insertion orders or signed contracts are generally used as evidence of an arrangement. Revenues are recognized in accordance with EIC-123, Reporting Revenue Gross as a Principal Versus Net as an Agent.

Software licensing agreements are recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable and vendor-specific evidence of an arrangement exists to allocate the total fee to the different elements of an arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by management, if it is probable that the price, once established, will not change before market introduction.

Revenues from myCopernic™ on the Go! service are generated by a yearly subscription and are amortized over a twelve-month period.

Revenues from maintenance support for licenses previously sold and implemented are recognized rateably over the term of the contract.

Revenues from customized development, not considered as part of the implementation of software licenses, are recognized as the services are provided.

Amounts received in advance of the delivery of products or performances of services are classified as deferred revenues.

Estimates of collection likelihood are based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not probable, management defers the fee and recognizes revenues at the time collection becomes probable, which is generally upon receipt of cash.

l) **Income Taxes**

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

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

m) **Foreign Currency Translation**

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



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n) Foreign Currency Transactions

Transactions concluded in currencies other than the functional currency have been translated as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenues and expenses have been translated at the average exchange rate for each period; non-monetary assets and liabilities have been translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses arising from such transactions are included in net earnings (loss) for the year.

o) Stock-based Compensation

The Company has a share option plan (described in Note 13) granting options to employees and board members. Under this plan, options grants are accounted for using the fair value-based method of accounting for stock-based compensation. Compensation expense for stock options awarded under the plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognized using the accelerated expense attribution method over the vesting period of the options granted. The Company estimates its forfeiture rate in order to determine the compensation expense arising from stock-based awards. Cash consideration received from employees and board members when they exercise the options is credited to capital stock.

The Company uses the Black-Scholes option pricing model which requires the input of subjective assumptions. These assumptions, including estimating the length of time employees will retain their stock options before exercising them (“the expected term”), the expected volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). Changes in forfeiture rate can affect the estimate of stock-based compensation expense.

p) Earnings (loss) per Share

Basic earnings (loss) per share are calculated using the weighted average number of shares outstanding during each of the years (Note 18).

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

q) Comparative Figures

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

3 Change in Accounting Policies

a) Changes Affecting 2009

CICA Section 3064 - Goodwill and Intangible Assets

Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. In addition, Section 1000, “Financial Statement Concepts” was amended to clarify the criteria for recognition of an asset. Finally, once an entity adopts this new section it may no

longer apply the guidance in Emerging Issues Committee Abstract No. 27, “Revenues and Expenditures during the Pre-Operating Period”. This section applies to interim and annual consolidated financial statements relating to fiscal year beginning on or after October 1, 2008. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets and it reinforces the approach under which assets are recorded only if they satisfy the definition of an asset and the recognition criteria for an asset. The adoption of this section did not have a significant impact on the Company’s consolidated financial statements.

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EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The Company has adopted that new guidance in the first quarter of 2009. The application of this new standard had no impact on the Company's operating results or financial position.

CICA, Amendments to Section 3862, Financial Instruments – Disclosures

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, that are effective for the Company's financial statements for the year ended December 31, 2009. The amendments are intended to enhance disclosure regarding fair value measurement and liquidity risk of financial instruments. The additional disclosures are presented in Note 21.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

b) Future Accounting Changes

CICA Section 1582 – Business Combinations

Section 1582, "Business Combinations" replaces Section 1581 of the same title. The Section establishes new standards for the accounting for a business combination. This Section constitutes the GAAP equivalent to the corresponding International Financial Reporting Standards ("IFRS"). This Section shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 and the Company will adopt this new Section as of such date upon its conversion to IFRS. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements and on future business combinations.

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CICA Section 1601 - Consolidated Financial Statements and CICA Section 1602 - “Non-Controlling Interests”

Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests” together replace Section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections constitute the GAAP equivalent to the corresponding IFRS. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and the Company will adopt these new Sections as of such date upon its conversion to IFRS. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

EIC-175 – Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Account Standards Update (ASU) 2009-14; (2) provide guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Company’s fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

CICA Section 1506 - Accounting Changes

In July 2009, the CICA amended Handbook Section 1506, Accounting Changes, to exclude from its scope changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting. The amendments apply to interim and annual financial statements relating to years beginning on or after July 1, 2009. The Company does not expect that adoption of these amendments will have a significant impact on the consolidated financial statements.

4

Discontinued Operations

On May 14, 2009, the Company announced that it had signed an agreement with Empresario, a privately owned digital media network based in Chicago, Illinois, for the disposal of the assets of its search / media segment for \$5,000,000. On June 17, 2009, at the Company’s Annual General Meeting and Special Shareholders’ Meeting, the shareholders have approved the proposed transaction which was officially concluded on June 30, 2009.

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Pursuant to the terms of the agreement concluded on June 30, 2009, the purchaser was to pay 25 equal monthly instalments of \$200,000, beginning on September 15, 2009. Interest at the rate of 4% (effective rate at 13.6%), compounded monthly, was to be calculated on the outstanding balance of sale and was payable 30 days after all principal payments were completed. Pursuant to an amended agreement signed on November 12, 2009, the payment terms were changed from 25 to 36 equal monthly instalments of the greater of \$100,000 or 85% of the revenues at an annual interest rate of 13.6%, compounded monthly, and calculated on the outstanding balance of sale. The remaining balance will be payable at the end of the 36-month period. That change had no impact on the fair value of the balance of sale receivable initially recorded. On June 30, 2009, an amount of \$4,447,230, which represents the fair value at the transaction date, was booked as balance of sale receivable. The net book value of the assets sold was nil. As at December 31, 2009, the total transaction fees amounted to \$299,441, resulting in a net gain on disposal of assets amounting to \$4,147,789 as presented below:

|  | 2009      | 2008 | 2007 |
|--|-----------|------|------|
|  | \$        | \$   | \$   |
| Selling price                                      | 4,447,230 | -    | -    |
| Transaction fees                                   | 299,441   | -    | -    |
| Gain on disposal of assets net of transaction fees | 4,147,789 | -    | -    |

The results of discontinued operations are as follows:

|   | 2009      | 2008      | 2007      |
|---|-----------|-----------|-----------|
|   | \$        | \$        | \$        |
| Revenues  | 1,594,946 | 4,793,367 | 6,414,152 |
| Cost of revenues  | 701,124   | 2,425,570 | 2,529,899 |
| Gross Margin  | 893,822   | 2,367,797 | 3,884,253 |
| Expenses  |           |           |           |
| Marketing, sales and services                           | 120,861   | 552,125   | 1,091,031 |
| Product development and technical support               | 30,535    | 101,738   | 217,737   |
| Amortization of property and equipment                  | 3,707     | 121,887   | 163,994   |
| Amortization of intangible assets                       | 8,070     | 38,874    | 49,515    |
| Write-down of property and equipment                    | 37,387    | 50,424    | 846,310   |
|   | 200,560   | 865,048   | 2,368,587 |
| Income from operations                                  | 693,262   | 1,502,749 | 1,515,666 |
| Gain on disposal of assets net of transaction fees      | 4,147,789 | -         | -         |
| Results of discontinued operations, net of income taxes | 4,841,051 | 1,502,749 | 1,515,666 |
| Income taxes  | 441,645   | 464,349   | 485,316   |
| Net income from discontinued operations                 | 4,399,406 | 1,038,400 | 1,030,350 |



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The cash provided by discontinued operations for operating activities is comprised of:

|   | 2009        | 2008      | 2007      |
|---|-------------|-----------|-----------|
|   | \$          | \$        | \$        |
| Net income from discontinued operations                           | 4,399,406   | 1,038,400 | 1,030,350 |
| Adjustment for:   |             |           |           |
| Write-down of property and equipment                              | 37,387      | 50,424    | 846,310   |
| Gain on disposal of assets net of transaction fees                | (4,147,789) | -         | -         |
| Amortization of property and equipment                            | 3,707       | 121,887   | 163,994   |
| Amortization of intangible assets                                 | 8,070       | 38,874    | 49,515    |
| Future income taxes   | 441,645     | 464,349   | 485,316   |
| Employee stock-based compensation                                 | -           | (45,723 ) | 42,589    |
| Net change in non-cash working capital items                      | 308,793     | (48,095 ) | 918,000   |
| Cash provided by discontinued operations for operating activities | 1,051,219   | 1,620,116 | 3,536,074 |

The cash used by discontinued operations for investing activities is comprised of:

|   | 2009       | 2008 | 2007 |
|---|------------|------|------|
|   | \$         | \$   | \$   |
| Transaction fees  | (299,441 ) | -    | -    |
| Capital payment on balance of sale receivable                 | 298,862    | -    | -    |
| Cash used by discontinued operations for investing activities | (579 )     | -    | -    |

## 5 Temporary Investments

In 2009, temporary investments consist of mutual funds (Money market) bearing interest at a weighted average rate of 0.12% per annum and possibility to withdraw at any time.

In 2008, temporary investments consist of term deposits, bearing a weighted average interest rate of 1.55% per annum and maturing on various dates up to May 2009. The market value of term deposits as at December 31, 2008 approximated their book value.

## 6 Accounts Receivable

Accounts receivable are comprised of the following:

|                                 | 2009    | 2008     |
|---------------------------------|---------|----------|
|                                 | \$      | \$       |
| Trade accounts receivable       | 237,688 | 839,245  |
| Allowance for doubtful accounts | (190 )  | (1,185 ) |
|                                 | 237,498 | 838,060  |
| Other                           | 18,612  | 69,500   |
|                                 | 256,110 | 907,560  |



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## Property and Equipment

|                        |           |             | 2009    |
|------------------------|-----------|-------------|---------|
|                        | Cost      | Accumulated | Net     |
|                        | \$        | \$          | \$      |
| Computer equipment     | 841,719   | 749,385     | 92,334  |
| Furniture and fixtures | 73,136    | 54,876      | 18,260  |
| Leasehold improvements | 101,999   | 97,483      | 4,516   |
|                        | 1,016,854 | 901,744     | 115,110 |
|                        | 2008      |             |         |
|                        | Cost      | Accumulated | Net     |
|                        | \$        | \$          | \$      |
| Computer equipment     | 916,169   | 735,421     | 180,748 |
| Furniture and fixtures | 152,575   | 119,603     | 32,972  |
| Leasehold improvements | 95,691    | 69,317      | 26,374  |
|                        | 1,164,435 | 924,341     | 240,094 |

Computer equipment includes assets under capital leases with an original cost of \$109,367 (2008 - \$127,366) and accumulated amortization of \$79,896 (2008 - \$61,896) as at December 31, 2009. In 2009, a write-down of \$10,924 for property and equipment was recorded as the Company estimated that the fair value of these assets was lower than their carrying value.

Amortization of property and equipment includes \$21,446 (2008 – \$39,629) of amortization on computer equipment under capital leases.

8

## Intangible Assets and Goodwill

a)

## Intangible Assets

|             | 2009      |              |            |         |
|-------------|-----------|--------------|------------|---------|
|             |           | Accumulated  | Impairment |         |
|             |           | amortization | provision  |         |
|             |           | \$           | \$         |         |
|             |           |              | Net        |         |
|             |           |              | \$         |         |
| Trade names | 377,833   | 219,282      | -          | 158,551 |
| Technology  | 2,614,790 | 2,614,790    | -          | -       |
| Software    | 265,823   | 221,777      | -          | 44,046  |
|             | 3,258,446 | 3,055,849    | -          | 202,597 |

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|                        | 2008      | Accumulated<br>amortization<br>\$ | Impairment<br>provision<br>\$ | Net<br>\$ |
|------------------------|-----------|-----------------------------------|-------------------------------|-----------|
| Trade names            | 2,560,518 | 873,091                           | 1,473,415                     | 214,012   |
| Technology             | 3,400,000 | 2,568,630                         | 192,000                       | 639,370   |
| Customer relationships | 2,000,000 | 1,347,945                         | 652,055                       | -         |
| Software               | 336,378   | 263,924                           | 7,351                         | 65,103    |
| Patents                | 77,622    | 22,781                            | 54,841                        | -         |
|                        | 8,374,518 | 5,076,371                         | 2,379,662                     | 918,485   |

In 2008, the Company was still facing delays in execution and changes in market conditions of its commercial deployment solutions. Based on its assessment of the fair value of the Company's assets related to software, the Company concluded that these assets related to it had suffered a loss in value and that the fair value of intangible assets was less than the carrying value. Therefore, write-downs of \$140,000 for trade names and \$192,000 for technology were recorded in 2008. Also, in 2008, write-downs of \$54,840 for patents were recorded as the Company estimated that the fair value of these intangible assets was lower than their carrying value. For the same reasons, in 2007, write-downs of \$1,333,415 for trade names and \$652,055 for customer relationships were recorded. No write-down has been recorded in 2009.

Intangible assets include assets under capital leases with an original cost of \$44,807 (2008 - \$44,807) and accumulated amortization of \$36,031 (2008 - \$27,255) as at December 31, 2009.

Amortization of intangible assets includes \$8,776 (2008 - \$17,580) on software under capital leases.

## b) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2008 are as follows:

|                             |             |
|-----------------------------|-------------|
| Balance – December 31, 2007 | 7,357,003   |
| Write-down                  | (3,995,000) |
| Balance – December 31, 2008 | 3,362,003   |
| Write-down                  | -           |
| Balance – December 31, 2009 | 3,362,003   |

In 2008, the Company was facing delays in execution and changes in market conditions of its commercial deployment solutions. Based on the Company's assessment of the fair value of its assets, the Company concluded that the related goodwill had suffered a loss in value and the fair value of the related goodwill was less than its carrying value. Therefore, a write-down of \$3,995,000 was recorded in 2008. No write-down has been recorded in 2009.

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## 9 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

|  | 2009      | 2008    |
|--|-----------|---------|
|  | \$        | \$      |
| Accounts payable                         | 155,229   | 332,641 |
| Accrued employee costs                   | 206,286   | 163,019 |
| Directors and officers payable (a)       | 397,686   | 201,982 |
| Companies owned by directors (a) (b) (c) | 9,581     | 7,456   |
| Accrued professional fees                | 165,359   | 153,732 |
| Other accrued liabilities                | 75,999    | 132,312 |
|  | 1,010,140 | 991,142 |

(a) These amounts payable relate, in large part, to consulting agreements.

(b) Services provided by one director for 2009 amounted to \$31,651. Services provided by two directors amounted to \$57,700 and \$123,746 in 2008 and 2007 respectively. These transactions are concluded in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the parties. These trade accounts are subject to the same terms as trade accounts of unrelated parties.

(c) David Goldman resigned as an officer and became Chairman of the Company in June 2008.

## 10 Obligations under Capital Leases

In 2009, obligations under capital leases, bearing interest at effective rates varying from 10.41 % to 33.45 %, payable in monthly instalments ranging from \$228 to \$3,264 including interest, maturing until September 2014 amounted to \$64,165.

As at December 31, future minimum payments for obligations under capital leases are as follows:

|  | 2009   | 2008    |
|--|--------|---------|
|  | \$     | \$      |
| 2009   | -      | 65,302  |
| 2010   | 51,080 | 39,697  |
| 2011   | 6,952  | 2,188   |
| 2012   | 2,230  | -       |
| 2013   | 2,230  | -       |
| 2014   | 1,673  | -       |
|  | 64,165 | 107,187 |
| Less: Interest (Weighted average rate of 10.76 % in 2009 – 11.20% in 2008) | 5,629  | 9,928   |
|  | 58,536 | 97,259  |
| Less: Current portion  | 50,630 | 57,267  |
|  | 7,906  | 39,992  |

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## 11 Income Taxes

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

|   | 2009        | 2008        | 2007         |
|---|-------------|-------------|--------------|
|   | \$          | \$          | \$           |
| Loss from continuing operations before income Taxes   | (2,940,363) | (8,383,496) | (17,195,466) |
| Expected recovery of income taxes at the statutory Rate 30.90%<br>(2008 – 30.90%, 2007 – 32.02%)  | (908,572 )  | (2,590,500) | (5,505,988 ) |
| Impact of foreign and provincial rates  | 186         | 9,200       | 3,654        |
| Change in future income tax balance due to change in rate   | -           | 41,582      | 1,316,637    |
| Unrecognized benefit of current year tax losses and undeducted<br>research and development expenses, and other temporary<br>differences | 272,763     | 208,650     | (176,111 )   |
| Permanent difference:   |             |             |              |
| Impairment of goodwill  | -           | 1,234,455   | 2,367,218    |
| Non-deductible expenses   | (19,226 )   | 242,221     | 260,300      |
| Recovery of income taxes  | (654,849 )  | (854,392 )  | (1,734,290 ) |

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

|   | 2009        | 2008        |
|---|-------------|-------------|
|   | \$          | \$          |
| <b>Assets</b>                                 |             |             |
| Property and equipment                        | 2,857,726   | 2,343,235   |
| Non-capital losses (expiring 2010 - 2029)     | 4,515,291   | 4,328,865   |
| Unrealized impairment losses on investments   | 468,856     | 748,437     |
| Research and development expenses             | 867,483     | 616,339     |
| Financing expenses                            | -           | -           |
| Intangible assets                             | -           | 382,595     |
| Goodwill                                      | -           | 228,140     |
| Other   | 57,665      | 117,331     |
|   | 8,767,021   | 8,764,942   |
| <b>Liabilities</b>                            |             |             |
| Intangible assets                             | 45,146      | 259,848     |
| Net future income tax assets before valuation | 8,721,875   | 8,505,094   |
| Valuation allowance                           | (8,767,021) | (8,764,942) |
|   | (45,146 )   | (259,848 )  |
| <b>Presented as:</b>                          |             |             |
| Current asset                                 | -           | -           |
| Long-term asset                               | -           | -           |

|                     |           |            |
|---------------------|-----------|------------|
| Long-term liability | (45,146 ) | (259,848 ) |
|                     | (45,146 ) | (259,848 ) |

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c) As at December 31, 2009, the Company also has temporary differences in the United States of America consisting mainly of non-capital losses for \$4,661,146 (2008 - \$1,929,723). No future tax assets were recognized in 2009 and 2008 for these temporary differences.

In addition, the Company has capital losses amounting to \$25,190,250 in 2009 (2008 - \$21,557,460) with no expiration date. No future tax assets were recognized in 2009 and in 2008 for these capital losses.

d) As at December 31, 2009, the Company has non-capital loss carryforwards totalling approximately \$16,399,000 for federal and provincial income tax purposes which may be used to reduce taxable income in future years. These losses may be claimed no later than fiscal years ending December 31:

|      | \$        |
|------|-----------|
| 2010 | 3,796,000 |
| 2014 | 941,000   |
| 2015 | 6,123,000 |
| 2026 | 822,000   |
| 2027 | 4,212,000 |
| 2028 | -         |
| 2029 | 505,000   |

12 Commitments

The Company is committed under operating lease agreements expiring at various dates until 2013. Future minimum payments for the next years under these leases are as follows:

|      | \$     |
|------|--------|
| 2010 | 84,790 |
| 2011 | 83,657 |
| 2012 | 28,812 |
| 2013 | 20,684 |

13 Capital Stock

During a special meeting of the shareholders held on September 11, 2009, a consolidation of issued and outstanding shares ("Consolidation" also known as reverse stock split) was approved effective as of September 14, 2009. The Consolidation factor was 7:1. All information related to shares, stock options and warrants (including comparatives) in these financial statements reflects this Consolidation. Prior to the completion of the Consolidation, the Company had 14,637,531 common shares outstanding, and upon completion of the Consolidation, the Company had 2,091,437 common shares outstanding.



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## a) Stock Options and Warrants

Information with respect to stock option activity and warrants for the period ended December 31, 2009 is as follows:

|                                     | Options<br>Number<br>of<br>options | Weighted<br>average<br>exercise<br>price<br>\$ | Warrants<br>Number<br>of<br>warrants | Weighted<br>average<br>exercise<br>price<br>\$ |
|-------------------------------------|------------------------------------|--|--------------------------------------|--|
| Outstanding as of December 31, 2008 | 111,082                            | 12.93  | 92,342                               | 109.20   |
| Granted                             | 44,998                             | 2.01   | -                                    | -  |
| Forfeited                           | (15,094 )                          | (10.40 )                                       | -                                    | -  |
| Expired                             | (8,643 )                           | (32.75 )                                       | (92,342 )                            | (109.20 )                                      |
| Outstanding as of December 31, 2009 | 132,343                            | 8.21   | -                                    | -  |

## b) Granting, Exercising and Cancellation of Stock Options

In 2007, the Company granted 130,133 options to employees, officers and directors at an exercise price between \$11.69 and \$36.05 expiring in five years. During that year, 10,173 options were forfeited and 1,693 options expired.

In January 2007, in connection with the resignation of two officers, the Company changed the duration of their option agreement and allowed accelerated vesting options for one of the officers. These changes represented an additional non cash item expense of \$253,236 which was recorded in Q1 2007.

In 2008, the Company granted 50,000 options to employees, officers and directors at an exercise price between \$1.54 and \$7.00 expiring in five years. During that year, 112,260 options were forfeited.

On March 4, 2009, the Company granted to an officer, 3,571 stock options at an exercise price of \$1.33 expiring in five years.

On June 17, 2009, the Company granted to directors 17,856 stock options at an exercise price of \$2.17 expiring in five years.

On June 30, 2009 the Company granted 8,571 stock options to officers and employees at an exercise price of \$2.03 expiring in five years.

On November 13, 2009 the Company granted 15,000 stock options to an officer at an exercise price of \$1.98 expiring in five years.

During the twelve-month period ended December 31, 2009, no options were exercised and 23,737 options were forfeited or expired.

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Information with respect to stock option activity for 2007, 2008 and 2009 is as follows:

|                                 | Number of options | Weighted average exercise price \$ |
|---------------------------------|-------------------|------------------------------------|
| Outstanding – December 31, 2006 | 97,456            | 19.88                              |
| Granted                         | 130,133           | 17.01                              |
| Forfeited                       | (10,173 )         | 28.21                              |
| Expired                         | (1,693 )          | 24.99                              |
| Exercised                       | (42,381 )         | 15.96                              |
| Outstanding – December 31, 2007 | 173,342           | 18.13                              |
| Granted                         | 50,000            | 4.13                               |
| Forfeited                       | (112,260 )        | 17.01                              |
| Outstanding – December 31, 2008 | 111,082           | 12.93                              |
| Granted                         | 44,998            | 2.01                               |
| Forfeited                       | (15,094 )         | 10.40                              |
| Expired                         | (8,643 )          | 32.75                              |
| Outstanding – December 31, 2009 | 132,343           | 8.21                               |

The following table summarizes all outstanding and exercisable options by range of exercise price

| Outstanding options        |   |                                 |                                    | Exercisable options                                   |                                    |  |
|----------------------------|---|---------------------------------|------------------------------------|---|------------------------------------|--|
| Range of exercise price \$ | Number of options outstanding as at December 31, 2009 | Weighted average remaining life | Weighted average exercise price \$ | Number of options exercisable as at December 31, 2009 | Weighted average exercise price \$ |  |
| 1.01 to 5.00               | 74,279  | 4.18                            | 2.49                               | 10,239  | 3.16                               |  |
| 5.01 to 10.00              | 14,286  | 3.25                            | 7.00                               | 4,762   | 7.00                               |  |
| 10.01 to 15.00             | 14,500  | 2.69                            | 11.89                              | 9,788   | 11.88                              |  |
| 15.01 to 20.00             | 16,667  | 0.85                            | 15.96                              | 16,667  | 15.96                              |  |
| 25.01 to 30.00             | 11,287  | 1.85                            | 27.98                              | 8,907   | 27.53                              |  |
| 35.01 to 36.05             | 1,324   | 2.06                            | 36.05                              | 885   | 36.05                              |  |
| Total                      | 132,343   | 3.28                            | 8.21                               | 51,248  | 14.15                              |  |

As at December 31, 2008 and 2007 there were 43,288 and 33,408 options exercisable at a weighted average exercise price of \$20.93 and \$23.59, respectively.

The fair value of the options granted was estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:



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|                              | 2009     | 2008    | 2007    |
|------------------------------|----------|---------|---------|
| Expected option life (years) | 3.00     | 2.86    | 3.03    |
| Volatility                   | 134.00 % | 87.49 % | 86.09 % |
| Risk-free interest rate      | 1.67 %   | 2.85 %  | 4.28 %  |
| Dividend yield               | nil      | nil     | nil     |

The weighted average grant-date fair values for stock options granted during 2009, 2008 and 2007 were \$1.54, \$2.31 and \$9.80 per option, respectively.

All outstanding warrants had expired as at December 31, 2009. This does not have an impact on the financial statements.

## c) Stock-based Compensation Costs

For the twelve-month periods ended December 31, 2009, 2008 and 2007, stock-based compensation costs by department were as follows:

|   | 2009    | 2008      | 2007    |
|---|---------|-----------|---------|
|   | \$      | \$        | \$      |
| General and administration                | 79,614  | 50,669    | 478,759 |
| Marketing, sales and services             | 4,917   | (55,601 ) | 57,480  |
| Product development and technical support | 22,178  | 13,181    | 81,484  |
| Total for continuing operations           | 106,709 | 8,249     | 617,723 |
| Total for discontinued operations         | -       | (45,723 ) | 42,589  |
| Total                                     | 106,709 | (37,474 ) | 660,312 |

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## Revenues

|  | 2009      | 2008      | 2007      |
|--|-----------|-----------|-----------|
|  | \$        | \$        | \$        |
| Search                                 | 640,103   | 813,014   | 940,557   |
| Software licensing                     | 574,536   | 951,023   | 415,263   |
| Customized development and maintenance |           |           |           |
| Support                                | 438,387   | 454,227   | 346,436   |
|  | 1,653,026 | 2,218,264 | 1,702,256 |

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## 15 Product Development and Technical Support Expenses

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

|  | 2009      | 2008      | 2007      |
|--|-----------|-----------|-----------|
|  | \$        | \$        | \$        |
| Product development and technical support expenses | 786,202   | 1,618,066 | 1,832,529 |
| Research and development expenses                  | 533,455   | 398,763   | 567,825   |
|  | 1,319,657 | 2,016,829 | 2,400,354 |
| Less: research and development tax credits         | 194,555   | 179,843   | 201,681   |
|  | 1,125,102 | 1,836,986 | 2,198,673 |

As of December 31, 2009, the Company has non-refundable tax credits of \$492,497 (2008 - \$393,089) with expiring dates between 2023 and 2029. No tax assets were recognized in 2009 and 2008 for these credits.

## 16 Write-downs and Settlement Costs

|  | 2009   | 2008      | 2007      |
|--|--------|-----------|-----------|
|  | \$     | \$        | \$        |
| Write-down of goodwill (Note 8)  | -      | 3,995,000 | 8,060,841 |
| Write-down of property and equipment and intangible assets (Notes 7 and 8) | 10,924 | 386,840   | 1,139,160 |
| Write-down of investment   | -      |           | 150,000   |
| Class action closure costs   | -      |           | (50,000 ) |
|  | 10,924 | 4,381,840 | 9,300,001 |

## Gain on disposal of an investment

During the year, the company sold an investment in a private company for an amount of \$169,239. The net book value of this investment was nil, therefore, the Company realized a gain on disposal for an amount equivalent to the proceeds.

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## 17 Restructuring Charges

|  | 2009    | 2008    | 2007 |
|--|---------|---------|------|
|  | \$      | \$      | \$   |
| Restructuring charges  |         |         |      |
| Lease termination costs  | -       | 31,391  | -    |
| Severance  | 9,264   | 18,093  | -    |
| Other  | 24,413  | 51,528  | -    |
|  | 33,677  | 101,012 | -    |
| Disbursements  | 105,075 | 16,561  | -    |
| Restructuring charges included in accounts payable and accrued liabilities |         |         |      |
| Balance, beginning of year   | 84,451  | -       | -    |
| Balance, end of year   | 13,053  | 84,451  | -    |

In order to reduce its costs, the Company has decided to close its Montreal office in first quarter of 2009 and concentrate all its activities in Quebec City.

The total cost of the restructuring charges including termination costs, head hunters' fees, lease termination costs and moving expenses amounted to \$134,689, of which \$33,677 were recorded in 2009 and \$101,012 in 2008.

## 18 Earnings (loss) per Share

|   | 2009      | 2008      | 2007      |
|---|-----------|-----------|-----------|
| Weighted average number of shares – Basic / diluted | 2,091,437 | 2,091,437 | 2,080,699 |

Options, at weighted average exercise price of \$14.15 to purchase 51,248 common shares (2008 – 43,288; 2007 – 33,408) and no warrant (2008 – 92,342; 2007 – 92,342) have been excluded from the above calculations since they would all have an anti-dilutive effect.

## 19 Consolidated Statement of Cash Flows

a) In 2009, the Company acquired \$12,854 (2008 - \$18,471) of computer equipment and \$0 (2008 - \$6,106) of software equipment under capital leases

## b) Net Change in Non-cash Working Capital Items

|  | 2009       | 2008       | 2007       |
|--|------------|------------|------------|
|  | \$         | \$         | \$         |
| Cash flows increase (decrease)           |            |            |            |
| Accounts receivable                      | 189,005    | 42,620     | 839,688    |
| Income taxes receivable                  | (227,681 ) | 111,084    | (111,203 ) |
| Prepaid expenses                         | 52,715     | 37,791     | 53,230     |
| Accounts payable and accrued liabilities | 172,650    | (513,529 ) | (698,348 ) |
| Income taxes payable                     | -          | (8,100 )   | -          |
| Deferred revenue                         | (53,121 )  | (54,666 )  | (16,205 )  |

|               |          |           |          |
|---------------|----------|-----------|----------|
| Deferred rent | (3,271 ) | (6,211 )  | (1,257 ) |
|               | 130,297  | (391,011) | 65,905   |

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## 20 Capital Management

The Company's objectives when managing capital are:

to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

to pursue its strategy of organic growth through selective acquisitions

to minimize shareholders' dilution

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce its risk.

In order to maximize flexibility to finance its ongoing growth and expansion and be able to take advantage of additional new capital investment and acquisition opportunities, the Company does not currently pay a dividend. The Company is not subject to any externally imposed capital requirements.

The Company's primary uses of capital are to finance the operations and capital expenditures. The Company currently funds these requirements out of its liquidities. The Company's strategy for managing capital remained unchanged from 2008.

The capital structure of the Company consists of cash, temporary investments and shareholders' equity. A summary of the Company's capital structure is as follows as at December 31:

|                       | 2009         | 2008        |
|-----------------------|--------------|-------------|
|                       | \$           | \$          |
| Cash                  | (465,949 )   | (1,066,817) |
| Temporary investments | (3,504,930 ) | (4,006,115) |
| Shareholders' equity  | 11,492,817   | 9,272,216   |
|                       | 7,521,938    | 4,199,284   |

## 21 Financial Instruments

## a) Financial Instrument – Fair Value

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments:

The Company has determined that the carrying value of its accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the relatively short periods to maturity of these instruments.





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The fair value of the balance of sale receivable and obligations under capital leases has been determined based on the discounted future cash flows. The fair value of these instruments approximates the carrying value as at December 31, 2009.

## Fair value hierarchy

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value on the consolidated balance sheet on a recurring basis as at December 31, 2009 classified using the fair value hierarchy:

|                          | Level 1   | Level 2 | Level 3 | Total<br>\$ |
|--------------------------|-----------|---------|---------|-------------|
| <b>Financial assets:</b> |           |         |         |             |
| Cash                     | 465,949   | -       | -       | 465,949     |
| Temporary investments    | 3,504,930 | -       | -       | 3,504,930   |

## Fair value and classification of financial instruments

|  | Held for trading<br>\$ | Held to maturity<br>\$ | Book value<br>Loans and receivable<br>\$ | Other financial liabilities<br>\$ | Fair value<br>\$ |
|--|------------------------|------------------------|--|-----------------------------------|------------------|
| <b>Financial assets:</b>                 |                        |                        |  |                                   |                  |
| Cash                                     | 465,949                |                        |  |                                   | 465,949          |
| Temporary investments                    | 3,504,930              |                        |  |                                   | 3,504,930        |
| Accounts receivable                      |                        |                        | 256,110                                  |                                   | 256,110          |
| Balance of sale receivable               |                        |                        | 4,349,191                                |                                   | 4,349,191        |
| <b>Financial liabilities:</b>            |                        |                        |  |                                   |                  |
| Accounts payable and accrued liabilities |                        |                        |  | 1,010,140                         | 1,010,140        |
| Obligations under capital leases         |                        |                        |  | 58,536                            | 58,536           |

## b) Foreign Currency Exchange Rate Risk

The Company is exposed to foreign exchange rate risk in that a higher proportion of the expenses are denominated in foreign currencies relative to revenue. Accordingly, the results are affected, and may be affected in the future, by exchange rate fluctuations of the foreign currencies relative to the US dollar.

The Company does not use derivative financial instruments to reduce its foreign exchange exposure. Fluctuations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

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The following table provides an indication of the Company's significant foreign exchange currency exposures:

## US\$ Currency

|   | As at December 31,<br>2009 |     |        |     | 2008    |         |        |        |
|---|----------------------------|-----|--------|-----|---------|---------|--------|--------|
|   | CDN                        | GBP | EUR    | AUD | CDN     | GBP     | EUR    | AUD    |
| Cash  | 27,523                     | -   | -      | -   | 46,007  | -       | -      | -      |
| Accounts receivable                         | 116,033                    | -   | 78,758 | -   | 49,805  | 127,051 | 72,728 | 29,929 |
| Accounts payable and<br>accrued liabilities | 887,465                    | -   | -      | -   | 687,746 | -       | -      | -      |
| Obligations under<br>capital leases         | 58,536                     | -   | -      | -   | 97,259  | -       | -      | -      |

The following exchange rates were applied during the years 2009 and 2008:

|                       | 2009            |                   | 2008            |                   |
|-----------------------|-----------------|-------------------|-----------------|-------------------|
|                       | Average<br>rate | Reporting<br>date | Average<br>rate | Reporting<br>date |
| \$CDN per \$US        | 0.8802          | 0.9532            | 0.9443          | 0.8183            |
| \$Australian per \$US | 0.7924          | 0.8931            | 0.8531          | 0.6907            |
| GBP per \$US          | 1.5659          | 1.5928            | 1.8552          | 1.4470            |
| EUR per \$US          | 1.3946          | 1.4333            | 1.4712          | 1.4097            |

Based on the Company's foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5% (1% in 2008 and 2007) weakening of the US dollar would have increased the net earnings by approximately \$123,000, compared to the increase of the net loss of \$61,000 in 2008 and \$255,000 in 2007, assuming that all other variables remained constant. An assumed 5% (1% in 2008 and 2007) strengthening of the US dollar would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## c) Credit Risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures from resulting in actual loss.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit risk history of each customer. As at December 31, 2009, two customers with more than 10% of net trade accounts receivable represented 50% of net trade accounts receivable, compared to 47% from two customers for the same period last year, resulting in a significant concentration of credit risk. As at March 26, 2010, clients with a past due over 91 days have cleared their balance. The Company's credit risk is considered to be low.

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|                                 | 2009    | 2008     |
|---------------------------------|---------|----------|
|                                 | \$      | \$       |
| Current                         | 59,319  | 453,445  |
| 31-60 days                      | 76,891  | 303,719  |
| 61-90 days (Past due)           | 26,254  | 36,773   |
| Over 91 days (Past due)         | 75,224  | 45,308   |
| Allowance for doubtful accounts | (190 )  | (1,185 ) |
| Balance as at December 31       | 237,498 | 838,060  |

The Company makes estimates and assumptions in the process of determining the adequate allowance for doubtful accounts. Accounts receivable outstanding longer than the agreed upon payment terms are considered past due. The Company determines its allowance by considering a number of factors including the length of time accounts receivable are past due, the customer's current ability to pay its obligation to the Company, historical results and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are determined to be uncollectible and any payments subsequently received on such accounts receivable are credited to consolidated operations. The allowance for doubtful accounts is primarily calculated on a specific identification of accounts receivable.

## Concentration of Revenues

10% or more of revenues are derived from these customers and are summarized as follows:

|            | 2009    |         | 2008    |         |
|------------|---------|---------|---------|---------|
|            | % of    | % of    | % of    | % of    |
|            | revenue | revenue | revenue | revenue |
| Customer A | 34      | %       | 28      | %       |
| Customer B | 11      | %       | 10      | %       |

Customer A is an ad placement agency settling revenues for thousands of retail transactions.

## d) Interest Rate Risk

The Company is subject to minimal interest rate risk on its cash and cash equivalents and temporary investments. The risk that the Company will realize a loss as a result of the decline in the fair value of the other instruments is limited and would not be material.

The Company's exposure to interest rate risk is as follows:

|                                  |                           | 2009             | 2008             |
|----------------------------------|---------------------------|------------------|------------------|
|                                  | Maturity                  | Interest rate    | Interest rate    |
| Cash                             | Less than 30 days         | 0.049% to 0.263% | 0.9% to 3.3 %    |
| Temporary investments            | 120 days and more         | 0.8% to 1.75%    | 0.9% to 3.3%     |
| Mutual funds                     | Withdrawal at any time    | 0.12%            | -                |
| Obligations under capital leases | 5 years (4 years in 2008) | 10.41% to 33.45% | 10.41% to 13.08% |



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## e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach in managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company also manages liquidity risk by continuously monitoring actual budgeted cash flows. Also, the Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. The Company's liquidity risk is considered to be low.

|      | Accounts payable and<br>accrued liabilities | Obligations under<br>capital<br>leases | Total<br>\$ |
|------|---|--|-------------|
| 2010 | 1,010,140                                   | 51,080                                 | 1,061,220   |
| 2011 | -   | 6,952                                  | 6,952       |
| 2012 | -   | 6,952                                  | 6,952       |
| 2013 | -   | 2,230                                  | 2,230       |
| 2014 | -   | 1,673                                  | 1,673       |

## 22 Geographic Segment

a) The geographic information for the continuing operations is as follows:

|               | 2009<br>\$ | 2008<br>\$ | 2007<br>\$ |
|---------------|------------|------------|------------|
| Revenues:     |            |            |            |
| Canada        | 125,954    | 231,714    | 26,906     |
| United States | 1,330,758  | 1,661,707  | 1,219,358  |
| Europe        | 196,314    | 324,843    | 455,992    |
|               | 1,653,026  | 2,218,264  | 1,702,256  |

b) The revenues are allocated based on the clients' location.

c) All long-lived assets and goodwill are located / associated to Canada.

d) As a result of the disposal of the assets of its search / media segment accounted for as discontinued operations, the entity now operates in a single segment and all information related to the discontinued operations has been presented in Note 4.

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## 23 United States Generally Accepted Accounting Principles

As a registrant with the Securities and Exchange Commission in the United States, the Company is required to reconcile its financial results for significant measurement differences between Canadian GAAP and U.S. GAAP as they specifically relate to the Company.

The effects of the cumulative adjustments on the consolidated balance sheets of the Company are as follows:

|   | December 31,<br>2009<br>\$ | December 31,<br>2008<br>\$ |
|---|----------------------------|----------------------------|
| <b>Capital stock</b>                                    |                            |                            |
| Capital stock in accordance with Canadian GAAP          | 96,556,485                 | 96,556,485                 |
| Reduction of stated capital (a)                         | 16,769,570                 | 16,769,570                 |
| Capital stock in accordance with U.S. GAAP              | 113,326,055                | 113,326,055                |
| <b>Contributed surplus</b>                              |                            |                            |
| Contributed surplus in accordance with Canadian GAAP    | 5,853,737                  | 5,747,028                  |
| Stock-based compensation cost (b)                       |                            |                            |
| Cumulative effect of prior years                        | 1,037,690                  | 1,037,690                  |
| Contributed surplus in accordance with U.S. GAAP        | 6,891,427                  | 6,784,718                  |
| <b>Accumulated deficit</b>                              |                            |                            |
| In accordance with Canadian GAAP                        | (91,478,542 )              | (93,592,434 )              |
| Reduction of stated capital to deficit (a)              | (16,769,570 )              | (16,769,570 )              |
| Stock-based compensation costs (b)                      |                            |                            |
| Cumulative effect of prior years                        | (1,037,690 )               | (1,037,690 )               |
| Accumulated deficit in accordance with U.S. GAAP        | (109,285,802)              | (111,399,694)              |
| Accumulated other comprehensive income                  |                            |                            |
| In accordance with Canadian and US GAAP                 | 561,137                    | 561,137                    |
| Total shareholders' equity in accordance with U.S. GAAP | 11,492,817                 | 9,272,216                  |

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a) (a) Reduction of Stated Capital

b) Under U.S. GAAP, the reduction of stated capital in the amount of \$16,769,570 undertaken by the Company on June 28, 1995 would not be permitted.

c) (b) Stock-based Compensation Costs

In 2003, the Company prospectively adopted the fair value method of accounting for stock options granted to employees. As a result of this change, there is no longer any difference between the Company's net results under U.S. GAAP as compared to Canadian GAAP.

For all fiscal years prior to 2003, under U.S. GAAP, the Company had elected to measure stock-based compensation costs using the intrinsic value method (APB 25). Under this method, compensation cost is measured as the difference between the fair value of the stock at the date of the grant over the exercise price. Compensation cost is amortized to expense over the appropriate vesting period. Under Canadian GAAP, no such compensation cost was recognized.

(c) Research and Development Tax Credits

Under U.S. GAAP, research and development investment tax credits would be classified as a reduction of the income tax expense instead of a reduction of the related research and development costs.

(d) Cash Flows

Under US GAAP, the cash flows reconciliation would have started with Net earnings (loss) for the year instead of Loss from continuing operations.

Accounting Changes

Fair value measurement

Effective January 1, 2009, the Company adopted Statement of FASB Accounting Standard Codification ("ASC") 820-10 (formerly SFAS No. 157), "Fair Value Measurements". FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2008 and to interim periods within those fiscal years.

Useful life of intangible assets

Effective January 1, 2009, the Company adopted FASB ASC 350 (formerly FASB Staff Position ("FSP") No. 142-3), "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FASB ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset.



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Hierarchy of GAAP

During the year ended December 31, 2009, the Company adopted changes issued by the FASB related to the authoritative hierarchy of GAAP. These changes establish the FASB ASC (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of SFAS, FSP or Emerging Issues Task Force Abstracts but instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Subsequent events

In May 2009, the FASB issued Statement No. 165 “Subsequent Events”, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. This Statement sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Statement is effective for interim and annual periods ending after June 15, 2009.

The adoption of these standards did not have an impact on the Company’s consolidated financial statements.

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Subsequent Events

As announced on February 12, 2010, Copernic Inc. amended the agreement signed on November 12, 2009, pursuant to which the Company will issue, by way of private placement, 500,000 shares at \$4.00 per share for a total proceeds of \$2,000,000.

The amended agreement also proposes a purchase, by Copernic, of 70.1% of the common shares outstanding of Sunbay Canada Corporation (“Sunbay”), a company registered in Ontario. The Board of Directors of Sunbay will be comprised of three members elected by Copernic, one of which will be Mr. Marc Ferland, Chief Executive Officer of Copernic who will also hold this position for Sunbay. In addition, Newlook Industries Corporation and Sunbay Energy Corporation will each elect a representative. Based on this amended agreement, Copernic will issue 150,000 common shares in exchange of its equity position in Sunbay valued at \$600,000 and 450,000 shares for cash of \$1,400,000. The closing is scheduled no later than April 30, 2010.

As announced on March 26, 2010, Copernic Inc. entered into a letter of intent with Fanotech Manufacturing Group with respect to the proposed acquisition by Copernic of the assets of Fanotech Manufacturing Group comprised of Fanotech Enviro Inc., Fanotech Waste Equipment Inc. and 1099958 Ontario Limited currently operating as FanoCore. The purchase price of approximately CND\$ 3.5M. will be based on the Net Book Value as at March 31, 2010, estimated at CND\$ 1.5M and 5 years of cumulative EBITDA estimated at CND\$ 2M. The purchase price will be payable by the issuance to the vendor of 320,000 common shares of Copernic at US\$ 6.00 / share for a total value of \$1,920,000 and the remaining balance will be payable in cash in an amount approximating CND\$ 1.5M subject to final determination of purchase price. The transaction is scheduled to close at the end of the second quarter and is subject to the receipt by Copernic of audited financial statements of Fanotech Manufacturing Group, satisfactory due diligence and board, shareholders and regulatory approvals.



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ITEM 18. FINANCIAL STATEMENTS

Not applicable. See Item 17 above.

ITEM 19. EXHIBITS

The following are filed in support of the statements contained herein and are in addition to those exhibits previously filed with the Commission:

- 1.1 Articles of Incorporation of Mamma.com Inc., as amended. (Filed as Exhibit 1.1 to the Company's Form 20-F filed May 31, 2005).
- 1.2 Bylaws of Mamma.com Inc., as amended. (Filed as Exhibit 1.2 to the Company's Form 20-F filed May 31, 2005).
- 1.3\* Certificate of amendment
- 4.1 Consulting Agreement between Dave Goldman Advisors Ltd. and Intasys Corporation dated October 30, 2001 and renewed on May 1, 2002. (Filed as Exhibit 4.4 to the Company's Form 20-F filed May 31, 2005).
- 4.2 Consulting Agreement between Maxim Group LLC and Intasys Corporation dated January 29, 2003, the Amended Agreement dated May 5, 2003 and the termination letter regarding the investment banking agreement. (Filed as Exhibit 4.5 to the Company's Report on Form 20-F filed May 31, 2005).
- 4.3 Consulting Agreement between Sam Luft and Intasys Corporation dated April 1, 2002 and expired on March 1, 2003. (Filed as Exhibit 4.6 to the Company's Form 20-F filed May 31, 2005).
- 4.4 Asset Purchase Agreement dated January 27, 2004 (without Exhibits and Schedules), the Amendment to Asset Purchase Agreement dated February 12, 2004, the Escrow Agreement dated February 12, 2004 and the Indemnity Agreement dated February 12, 2004 between Mamma.com Inc. and ACE\*COMM. (Filed as Exhibit 4.7 to the Company's Form 20-F filed May 31, 2005).
- 4.5 Merriman Curhan Ford & Co. Advisory Agreement and Engagement Letter dated March 16, 2004 (Filed as Exhibit 4.8 to the Company's Form 20-F filed May 31, 2005).
- 4.6 Securities Purchase Agreement among the Company, Chris Tsistinas, Erik Kretschmar, Digital Arrow LLC and High Performance Broadcasting, Inc. dated June 10, 2004. (Filed as Exhibit 4.9 to the Company's Report on Form 20-F filed May 31, 2005).

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- 4.7 Securities Purchase Agreement among the Company and several purchasers thereunder dated June 30, 2004. (Filed as Exhibit 4.10 to the Company's Form 20-F filed May 31, 2005).
- 4.8 Revised Merriman Curhan Ford & Co. Advisory Agreement and Engagement Letters dated July 16 and September 8, 2004. (Filed as Exhibit 4.11 to the Company's Form 20-F filed May 31, 2005).
- 4.9 Amendment to Consulting Agreement among Mamma.com Inc. and Dave Goldman Advisors Ltd. and David Goldman dated May 23, 2005. (Filed as Exhibit 4.12 to the Company's Form 20-F filed May 31, 2005)
- 4.10 Share Purchase Agreement among Mamma.com Inc., Martin Bouchard, Éric Bouchard, 4332903 Canada, Inc., 4332911 Canada, Inc. and others, (Filed as Exhibit 99.2 to the Company's Form 6-K filed December 29, 2005).
- 4.11 Share Purchase Agreement among Mamma.com Inc., Copernic Technologies, Inc. and others dated December 22, 2005 (Filed as Exhibit 99.3 to the Company's Form 6-K filed December 29, 2005).
- 4.12 Consulting Agreement between ThomasLloyd Capital LLC and Copernic Inc. dated June 7, 2007 and expired on December 31, 2007.
- 4.13\* Subscription agreement among 2208270 Ontario Limited and Copernic Inc.

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|        |  |
|--------|--|
| 4.14*  | Amendment No. 2 to the subscription agreement among 2208270 Ontario Limited and Copernic Inc.  |
| 4.15*  | Asset purchase agreement among Copernic inc. and Empresario inc.   |
| 4.16*  | Garantee to the asset purchase agreement among Copernic inc. and Empresario inc  |
| 4.17*  | Second amendment to the asset purchase agreement among Copernic inc. and Empresario inc  |
| 8.1*   | Subsidiary of Copernic Inc.  |
| 11     | Code of Ethics (filed as Exhibit 11 to the Company's Form 20-F filed March 31, 2006).  |
| 12.1*  | Certification of Marc Ferland under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.   |
| 12.2*  | Certification of Jean Rock Fournier under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.   |
| 13.1*  | Certifications under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 18 of Title 18 of the United States Code. |
| 15.1*  | Consent of Raymond Chabot Grant Thornton LLP<br>Consent of RSM Richter LLP.  |
| 15.12* | Consent of RSM Richter LLP.  |
| 15.2   | Audit and Finance Committee Charter (filed as Exhibit 15.3 to the Company's Form 20-F filed March 31, 2006).   |
| 15.3   | Compensation Committee Charter (filed as Exhibit 15.4 to the Company's Form 20-F filed March 31, 2006).  |
| 15.4   | Nominating and Corporate Governance Committee Charter (filed as Exhibit 15.5 to the Company's Form 20-F filed March 31, 2006).                                     |

\* Filed as an Exhibit to this Annual Report on Form 20-F.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all requirements for filing an Annual Report on Form 20-F and has duly caused this Annual Report to be signed on its behalf.

Dated: March 26, 2010

COPERNIC INC.

By:

s/s David Goldman

Name:

David Goldman

Title:

Chairman

s/s Marc Ferland

Name:

Marc Ferland

Title:

President and Chief Executive  
Officer

s/s Jean-Rock Fournier

Name:

Jean-Rock Fournier

Title:

Vice President Executive and  
Chief Financial Officer

