KABOOSE™

Kaboose Inc.
2007 Annual Report

LETTER TO SHAREHOLDERS

FELLOW SHAREHOLDERS:

We haven't slowed down. Fiscal 2007 was another very busy and successful year for Kaboose, highlighted by the expansion of our economic relationships with our clients, the continued build-out of our platform of properties, including the acquisition of the United Kingdom's largest parenting club and the leading online family destination, and the strengthening of our team to support our continued growth. Our achievements contributed to strong year-over-year growth, with revenue increasing 72% to $35.5 million and EBITDA[1] more than quadrupling to $5.3 million. Furthermore, assuming we included a full year of operations from Bounty, which was acquired on November 30, 2007, we would have achieved revenue of $82.2 million and EBITDA of $14.4 million for 2007.

WE KNOW MOMS. MOMS KNOW US.
We know our audience – moms and expectant moms – better than anyone else. We leverage our extensive interaction with them on our properties to understand their wants and needs, enabling us to better serve them by providing relevant, timely content and access to useful tools, engaging them to learn, and allowing them to customize and personalize their media experience. Our success in this regard is evident in the continued growth in traffic to our properties, as well as the many industry awards that have been bestowed upon our various sites. In December 2007, Kaboose was the most visited online family destination in the world and we consistently rank among the top five. TwoPeasInABucket.com, our scrapbooking property, was named the Top Internet Site and Top Internet Retailer by readers of *Creating Keepsakes* scrapbook magazine in both 2007 and 2008. BirthdayInABox.com, our online party supplies company, was named the 2007 Online Party Retailer of the Year by *Greetings etc.* magazine's National Party Retail Awards, which recognize outstanding partyware retailers. And our BabyZone.com property was named an Honoree in the Family/Parenting category in the 11th Annual Webby Awards, the leading international awards program honoring excellence on the Internet.

FAVOURABLE MARKET TRENDS. HIGH VALUE INDUSTRY SEGMENT.
The demographics of our target audience are trending in our favour. Recent trends point to women in the developed world having children later in life and more often than not, subsequently returning to the workforce. As a result, both expectant and new mothers have more discretionary income to spend on their infants and young children. At the same time, family disposable incomes are becoming increasingly concentrated on fewer children due to smaller families, shortening the period of time during which brand owners can initiate a long-term relationship with parents. With our specific focus on the expectant and new mom demographic, we provide brand owners with the ability to forge lasting relationships and grow their share of parents' purchasing budgets.

As a trusted and respected resource for moms and expectant women, Kaboose represents a tremendous channel for the world's largest advertisers to reach this highly coveted demographic. Our clients continued to recognize our value as a conduit to this important target audience in 2007 as they both engaged us for longer campaigns and committed more advertising dollars per campaign. This speaks not only to advertisers' strong demand for channels to reach this market segment, but also the limited access advertisers have to this audience. Our roster of clients boasts some of the largest advertisers in the world, including Fortune 500™ companies like Bayer, Bristol-Myers Squibb, Chrysler, Daimler, Disney, Fidelity, Ford, Forest Laboratories, GlaxoSmithKline, Hewlett-Packard, Johnson & Johnson, Kimberly-Clark, Merck, Microsoft, Novartis, Pfizer, Procter & Gamble, Sony, Toyota, Unilever, Visa and Wal-Mart.

When these demographic trends are combined with the increasing preference of brand owners to spend their advertising dollars online, the value proposition of our properties is strengthened even further. Over the past 11 years, Internet advertising revenues in the United States have grown almost ten-fold to more than US$21.1 billion. This channel is projected to continue its explosive growth, more than doubling over the next five years to US$51 billion. Online advertising spending is growing at similarly rapid rates in the United Kingdom, where it is forecasted to reach nearly £5.0 billion in 2012, representing more than half of all online ad spending in Western Europe. Part of this growth worldwide is being driven by the continued shift in the proportion of advertising budgets that brand owners are directing towards online media. In 2007, US advertisers spent 7.4% of their total domestic advertising spending to online channels, double that of 2004. This figure is expected to grow to 13.3% in 2011. The shift is especially pronounced in the UK, where advertisers devoted more than 18% of their budgets to the online channel in 2007 and expected to increase that to as much as 30% by 2011. This trend is expected to continue as advertisers align their budgets with the media preferences of consumers.

---

[1] See page 4 for definition and reconciliation of EBITDA.

UK ACQUISITION. INTERNATIONAL EXPANSION.

In November 2007, we expanded our operations beyond the borders of the United States and Canada with the acquisition of Bounty Group Limited, the pre-eminent marketing and advertising platform targeting new and expectant mothers and the number one online destination for young families in the United Kingdom. The acquisition of Bounty is the biggest and most exciting step we have made in our Company's history. Bounty has an unparalleled market position in the UK and an outstanding reputation as a recognized and trusted brand. Through exclusive contracts with most UK-based birthing hospitals and direct access to more than 95% of the estimated 750,000 annual births in the United Kingdom, as well as established relationships with brand owners, Bounty is the number one life-stage marketing and advertising company focused on new mothers in the UK. Some of the other benefits that Bounty brings to the Kaboose family are:

- Europe's largest database of young families with approximately nine million records;
- UK's largest parenting club with more than 2.4 million active members and more than 50,000 new members every month;
- Largest coverage of the young family market and the greatest number of touch points to consumers, starting in the early stages of pregnancy and continuing until the child reaches five years of age; and
- Long-standing contractual client relationships with leading consumer brands, including Procter & Gamble, Kimberly-Clark, Unilever, Johnson & Johnson and ASDA (Wal-Mart).

Strategically, the UK has our second largest audience and the acquisition of Bounty will enable us to monetize our significant European online traffic and positions us as a leading media supplier to the family market in the three largest English-speaking markets in the world – the United States, Canada and the United Kingdom. As we extend our strategy to international markets, we believe that we have identified the best company in Europe with which to pursue our goals.

Our company was born out of the need for valuable online information and tools for new and expectant parents. In fulfilling this need, we created a formidable online channel for brand owners to connect with this crucial niche audience. We have since expanded our property network through key acquisitions that have not only supported the expansion of our audiences, but also the diversification of our media offerings through the addition of e-commerce and photography. With the acquisition of Bounty, we have further broadened our offerings, adding direct mailings, publications, and sampling to our suite of services. Through our broad range of offerings and strong position in the online channel, we will continue to provide the world's leading brand owners with the opportunity to build stronger, broader relationships with their customers. In turn, we will gain additional revenue streams through which we can deliver shareholder value.

GROWTH ACHIEVED. SUCCESS RECOGNIZED.

Our success continues to be recognized both by the capital markets, in the form of continued financial support for our vision and strategy, and by those that track Canada's top performing companies. In 2007, we completed two financings that generated gross proceeds of more than $140 million. Our strong growth was acknowledged by some of the financial community's leading publications and institutions, including our first appearance in *PROFIT Magazine*'s ranking of Canada's 100 Fastest-Growing Companies. We also ranked number one in the Internet & Software Services industry on *Canadian Business*' Investor 500 list, which ranks Canada's 500 top-performing publicly traded companies by one-year return. In addition, we were 19th in the Top 300 Small-Cap Companies category and 22nd among all companies. Finally, we were added to the S&P/TSX SmallCap Index and the Equity SmallCap Index in September 2007.

BUILDING THE OPPORTUNITY. STRENGTHENING THE TEAM.

As the opportunity for Kaboose grows, so must we. We continue to broaden and deepen our knowledge and capabilities across all facets of the organization. Of particular note, in November 2007, we appointed Internet and technology industry veteran, Craig Wallace, to the position of President and Chief Operating Officer. Mr. Wallace has a proven track record of leading both established and emerging technology companies over the past 25 years with specific expertise in operational leadership, strategic planning, team building and business development gained through executive positions at AOL Canada Inc., PC Docs Group, iSTAR Internet Inc. and Microsoft Canada. In just four months since he joined us, we have already felt the positive impact of Craig's vast experience and benefited from his unique perspective. We also gained invaluable industry expertise and international competence through the addition of the Bounty team, led by Ian Beswetherick, Managing Director.

FOCUSED ON FAMILY. FOCUSED ON THE FUTURE.

With a consistent position among the top five family-oriented online media companies in the world, we believe that our focus on helping parents plan and share their family life has been validated. Looking ahead, we are committed to building upon our successes to continue to grow the Company – and shareholder value. First, we will strive to be the definitive family resource for parents – in particular, moms and expectant moms – by providing relevant, high quality content supported by our unmatched knowledge of our audience. Second, we will exploit our leading market position in our pursuit to be the definitive conduit for advertisers seeking to build long-term relationships with new and expectant mothers, providing them with unprecedented access to this highly sought demographic. Finally, we will leverage our acquisition of Bounty to extract value from our UK-based traffic, as well as other international traffic.

Our overriding goal at Kaboose is to capitalize on our leading position as a preferred channel for advertisers to reach the young family demographic to build long-term value for our shareholders. We are confident that by focusing on what we do best – building and growing our business – we will continue to create value that will be recognized over the long term. With this in mind, in March of this year, I increased my ownership position in the Company, purchasing an additional one million shares on the open market. Around the same time, Kaboose's Board of Directors approved a share buyback program under which the Company could repurchase up to 5% of its outstanding common shares. We believe that these actions are demonstrative of our confidence in the future of the Company.

In closing, I would like to thank all of our employees for their continued diligence in and dedication to delivering first-class media experiences to our audience and providing excellence in service and results for our advertising clients. We have assembled an incredible team with the broad experience and expertise, and, as importantly, the commitment to achieve our goals. I would also like to thank our Board of Directors for their ongoing guidance and counsel, especially during another eventful year in 2007. Finally, on behalf of the entire Kaboose team and the Board, I would like to thank you, our shareholders, for your continued support.

On behalf of management,

Jason DeZwirek
Chairman & Chief Executive Officer

DEFINITION AND RECONCILIATION OF EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation and other non-recurring charges. The table below reconciles EBITDA to generally accepted accounting principles (GAAP). Kaboose presents EBITDA information as a supplemental figure because management believes it provides useful information regarding operating performance. EBITDA is not a recognized measure under Canadian GAAP, does not have standardized meaning and is unlikely to be comparable to similar measures used by other companies. Accordingly, investors are cautioned that EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows.

(in $ millions)	**Twelve-month period ended December 31, 2007**
Net profit	$1.70
Add/(Deduct)	
Amortization	4.91
Restructuring	0.24
Interest, net	(0.42)
Tax credits	(0.69)
Other income/non-recurring charges	(0.60)
Stock-based compensation	2.00
Provision for income taxes	(1.88)
EBITDA	$5.26

Management's Discussion and Analysis

Kaboose Inc.

Management's Discussion and Analysis

The following is a discussion and analysis of the financial position, results of operations and cash flows of Kaboose Inc. for the three-month and twelve-month periods ended December 31, 2007 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007. The effective date of this management's discussion and analysis is March 6, 2008. The Company reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles. References herein to "Kaboose", "the Company", "we" and "our" mean Kaboose Inc.

Forward-Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with the Company's business and the economic environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Kaboose's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the "Risks and Uncertainties" section of this management's discussion and analysis.

Overview

The Company is a family-focused media company that generates revenue from online and offline advertising and online commerce transactions. The Company's online revenues are generated from advertising on the Kaboose.com, Bounty.com, BabyZone.com, TwoPeasInaBucket.com, AmazingMoms.com, Funschool.com, Zeeks.com and BubbleShare.com properties. Kaboose also generates offline revenues from the sale of product placement or advertising space in Bounty Group Limited's ["Bounty"] sample packs, photography services and the sale of Bounty Club member data to third parties. Kaboose commerce transaction revenues are derived from online purchases at BirthdayInABox.com ["Birthday"] and TwoPeasInaBucket.com ["Two Peas"].

Highlights

['000s omitted]

- In January 2007, Kaboose completed a bought deal equity financing for aggregate gross proceeds of $17,250;
- On January 4, 2007, the Company acquired all the issued and outstanding shares of BubbleLabs Inc. ["BubbleLabs"] for cash consideration of $2,528 [US$2,250] and certain additional payments up to a maximum amount of US$750;
- In February 2007, Kaboose's award winning TwoPeasInaBucket.com property won in two categories of *Creating Keepsakes* Readers' Choice Awards. Two Peas was named the 2007 Top Internet Site and Top Internet Retailer by readers of *Creating Keepsakes* scrapbook magazine;
- During March 2007, Kaboose's online party supplies company, BirthdayInABox.com was named the 2007 Online Party Retailer of the Year;
- On March 30, 2007, the Company acquired substantially all the assets Amazing Moms Inc ["AmazingMoms"] for consideration of $1,654 of which $777 was deferred and will be paid over the next twenty-four months;
- On June 4, 2007, Kaboose, in its first appearance ever, ranked in the top 20 of PROFIT Magazine's 19th annual PROFIT 100 ranking of Canada's Fastest-Growing Companies, which was published in the June issue of PROFIT and online at PROFITguide.com. The PROFIT 100 is Canada's largest annual celebration of entrepreneurial achievement;
- Also in June 2007, Kaboose hit the top 20 of the top 300 Small-Cap Companies, was 22nd overall in one-year return and number one in the Internet & Software Services industry (one of the top-five best industries) on Canadian Business' Investor 500 list, which ranks Canada's 500 largest publicly traded companies;
- Kaboose was selected by Standard & Poor's ["S&P"] to be added to the S&P/TSX SmallCap Index and the Equity SmallCap Index [TSX: XCS] effective as of the open of business on September 24, 2007;
- On November 27, 2007, Kaboose appointed former AOL and Microsoft executive, Craig Wallace, as President and Chief Operating Officer of Kaboose Inc.;
- On November 29, 2007, Kaboose completed a bought deal equity financing for aggregate gross proceeds of approximately $115,000; and
- Also on November 29, 2007, Kaboose completed the acquisition of 100% of the outstanding shares of Bounty, the UK's largest parenting club and the leading family destination online in the United Kingdom, for £70,000 (approximately $140,000) less debt and other long-term liabilities.

Subsequent Events

- Bounty extended its relationship with two key customers: ASDA, a Wal-Mart company and the second largest grocer in the U.K., and Johnson & Johnson, one of the U.K.'s principal manufacturers of baby care products;

- For the second year in a row, Kaboose's scrapbooking site, TwoPeasInABucket.com, was named the Top Internet Site and Top Internet Retailer in *Creating Keepsakes* Readers' Choice Awards; and
- Bounty launched a new online and offline financial service for families, called Bounty Money, which was developed in partnership with Skipton Building Society, one of the largest financial services providers in the U.K.

Growth Strategy

Management intends to continue to focus on the young family demographic and believes that it is poised to benefit from the global growth of online advertising in general and the amount directed at this segment specifically. Kaboose intends to focus on the following growth strategy:

- Continue to grow its global community of mothers through marketing initiatives and leveraging current and newly acquired properties;
- Increase its global registered user base and database of new and expectant mothers in the family demographic;
- Leverage the direct marketing expertise of the Bounty management team across other Kaboose properties and assets;
- Deepen client relationships by offering industry-leading global integrated advertising solutions that take advantage of trends and developments in the online and offline medium; and
- Continue to consider acquisition opportunities that complement its focus on the young family demographic.

Revenue

Kaboose's revenue model encompasses revenue from online advertising, marketing services and commerce transactions.

Online Advertising

Kaboose's advertising revenue, which is generated in North America, is derived from the sale of space on its network of websites to different advertisers who purchase impression-based advertising, where fees are earned from the number of times an advertisement is viewed by users, as well as from email, lead generation and co-registration programs.

Marketing Services

Kaboose's marketing services revenue, which is generated in the UK, is derived from the sale of product placement or advertising space in Bounty's sample packs, on its websites, through periodical online and offline mailings, publications and newsletters, photography services, and through the sale of Bounty Club member data to third parties.

Commerce Transactions

Kaboose earns commerce transaction revenue, which is generated in North America, from online purchases at Birthday and Two Peas. Customers make online purchases over the Internet on Birthday and Two Peas. Kaboose receives the funds for the orders and then goods are shipped to the customers. Revenue is recognized upon shipment of the goods to the customers.

Expenses

Kaboose's expenses are comprised of selling, operating, general and administrative costs and cost of commerce transactions.

Selling, Operating, General and Administrative Costs

Kaboose's selling, operating, general and administrative costs are broken down into the following five categories: (i) compensation, commission and consulting, (ii) advertising and marketing, (iii) distribution (iv) ad-serving, hosting and server maintenance, and (v) other general and administrative.

(i) Compensation, commission and consulting relates to personnel and related costs, and professional consulting expenses.

(ii) Advertising and marketing consists of costs related to advertisements and marketing functions, as well as brand development fees, media placement fees and promotional expenses.

(iii) Distribution consists of costs incurred to deliver sample packs, offline mailings, publications and newsletters related to the marketing services business.

(iv) Ad-serving, hosting and server maintenance consists of costs related to hosting fees, website costs, ad serving fees and computer hardware maintenance expenses.

(v) General and administrative costs consist of office and administration expenses, other general corporate expenses and costs related to facilities and equipment.

Financial Highlights

['000s omitted]

The table below sets out the statement of operations for the three and twelve months ended December 31, 2007 and 2006.

	Three-month period ended December 31		Twelve-month period ended December 31	
	2007 (unaudited)	2006 (unaudited)	**2007**	2006
Statement of Operations Data	**$**	$	**$**	$
Revenues	**12,414**	8,822	**35,473**	20,574
Expenses				
Selling, operating and administrative	**10,228**	6,115	**28,952**	17,880
Cost of commerce transactions	**771**	560	**3,762**	2,031
Digital media tax credit	**(177)**	(390)	**(686)**	(390)
Net foreign currency (gains) losses	**(1,091)**	–	**(1,091)**	(65)
Amortization	**2,028**	636	**4,907**	1,669
Restructuring charges	**–**	–	**236**	–
Interest income	**(341)**	(192)	**(1,260)**	(565)
Interest expense on long-term debt	**168**	–	**174**	–
Interest expense, other	**239**	3	**662**	24
Income taxes (recovery) provision	**(1,142)**	(17)	**(1,881)**	80
Net profit (loss) for the period	**1,731**	2,107	**1,698**	(90)

Supplementary Financial Data				
Profit (loss) per share - basic	**0.02**	0.03	**0.02**	–
Profit (loss) per share - diluted	**0.02**	0.02	**0.02**	–
Weighted average number of shares outstanding ['000] – basic	**110,847**	83,897	**97,009**	71,216
Weighted average number of shares outstanding ['000] – diluted	**112,998**	90,516	**99,272**	71,216

Balance Sheet Data	**As at December 31, 2007**	As at December 31, 2006
Cash and cash equivalents	**13,499**	12,368
Short-term investments	**5,340**	–
Restricted cash	**26,501**	4,662
Working capital (including cash and cash equivalents)	**17,502**	16,832
Total assets	**281,892**	68,571
Long term liabilities, excluding current portion	**51,794**	6,566
Total shareholders' equity	**182,023**	52,542

Results of Operations

Comparison of the three-month and twelve-month periods ended December 31, 2007 and 2006

['000s omitted]

Revenues

Revenues during the three-month and twelve-month periods ended December 31, 2007 and 2006 were earned from online advertising, marketing services and commerce transactions. During the three-month period ended December 31, 2007 revenues were $12,414, compared to $8,822 for the same quarter of fiscal 2006. Revenues during the fourth quarter of 2007 increased by 41%, compared to the same period of 2006 due to growth in the Company's existing business, as well as revenues generated from businesses acquired in 2007, including Bounty.

For the fiscal years ended December 31, 2007 and 2006, revenues were $35,473 and $20,574, respectively or an increase of 72% over the prior year. Revenues increased during fiscal 2007 due to growth in the Company's existing businesses, as well as from newly acquired businesses.

Expenses

Selling, Operating and Administrative Expenses

Compensation, commissions and consulting expenses during the three-month period ended December 31, 2007 increased by $2,348 or 64% to $6,034 from $3,686 for the three-month period ended December 31, 2006. For fiscal 2007, compensation, commissions and consulting expenses were $17,255, compared to $10,368 for fiscal 2006, an increase of $6,887 or 66%. The increase in compensation, commission and consulting expenses was mainly due to increased headcount, as well as higher employee related costs to support the growth in the Company's existing businesses and the additional costs relating to newly acquired businesses.

For the three months ended December 31, 2007, advertising and marketing expenses increased by 2% to $732, compared to $719 in the same period ended December 31, 2006. During the twelve-month periods ended December 31, 2007 and 2006, advertising and marketing expenses were $2,849 and $2,538, respectively, an increase of 12%. The increase in advertising and marketing expense in fiscal 2007, compared to the same period in 2006, was primarily attributable to a larger advertising and marketing expense to build awareness of the properties.

Distribution costs for the three and twelve months ended December 31, 2007 were $1,195 versus nil for the same periods in 2006. Distribution costs related to the marketing services business acquired in the fourth quarter of fiscal 2007 and consisted mainly of costs incurred to distribute and deliver offline materials to customers.

In the fourth quarter of fiscal 2007, ad-serving, hosting and server maintenance expenses increased by 7% to $391, compared to $364 in the same quarter of fiscal 2006. Similarly, for fiscal 2007, ad-serving, hosting and server maintenance expenses were $1,221, an increase of 48% from the $823 incurred in fiscal 2006. The increase in costs in the three-month and twelve-month periods ended December 31, 2007, compared to December 31, 2006, was mainly due to higher ad serving costs due to the growth in the advertising business and higher hosting costs due to the increased scale of operations.

During the quarter ended December 31, 2007, general and administrative expenses increased by 39% to $1,876, compared to $1,346 for the same quarter in 2006 and, for the fiscal year ended December 31, 2007, were $6,432, compared to $4,151 for fiscal 2006, an increase of 55%. The increase was primarily due to increases in professional fees, public company expenses, expenses related to the acquired businesses and foreign exchange translation losses related to working capital items held in US dollars.

Cost of Commerce Transactions

Cost of commerce transactions was $771 for the three-month period ended December 31, 2007 and $3,762 for the fiscal year ended December 31, 2007, compared to $560 in the three-month period ended December 31, 2006 and $2,031 for fiscal 2006. Cost of sales consisted of variable costs related to merchandise costs for the commerce business. Cost of sales increased during the three-month and twelve-month periods ended December 31, 2007 due to organic growth in the Company's existing businesses.

Digital Media Tax Credits

Digital media tax credits recovered in the fourth quarter of 2007 were $177, compared to $390 in the fourth quarter of 2006. Digital media tax credits recovered during fiscal 2007 were $686 versus $390 in fiscal 2006. The digital media tax credits recovered in fiscal 2007 related to 2004-2006 digital media spending.

Net Foreign Currency (Gains) Losses

Net foreign currency gains in the fourth quarter of 2007 were $1,091, compared to nil in the same quarter of 2006. Net foreign currency gains in fiscal 2007 were $1,091, compared to $65 in fiscal 2006. Net foreign currency gains were comprised primarily of the gain on the forward foreign exchange contract related to the acquisition of Bounty in the fourth quarter of fiscal 2007 of $1,355, off set in part by foreign exchange translation losses arising from US dollar cash held for investment purposes during the year.

Amortization
During the fourth quarter of fiscal 2007, amortization increased to $2,028, compared to $636 in the same quarter of fiscal 2006. Amortization for fiscal 2007 was $4,907, an increase from $1,669 in fiscal 2006. The increase in amortization during the three-month and twelve-month periods ended December 31, 2007, compared to December 31, 2006, was a result of additional capital and product development expenditures required to support the growth in Kaboose's operations and amortization related to intangibles that were acquired in the acquisitions of Bounty, AmazingMoms and BubbleLabs.

Restructuring Charges
Restructuring charges incurred in the third quarter of 2007 were $236. No other restructuring costs were incurred in either 2007 or 2006. These costs were incurred to streamline the Company's sales, editorial and product development teams.

Interest Income
During the quarter ended December 31, 2007, interest income was $341, compared to interest income of $192 in the comparable quarter of 2006 and income of $1,260 for the twelve months ended December 31, 2007, compared to income of $565 for fiscal 2006. Interest income was comprised primarily of interest earned from the investment of Kaboose's corporate funds.

Interest Expense on Long-Term Debt
During the quarter ended December 31, 2007, interest expense was $168, compared to interest expense of nil in the comparable quarter of 2006 and expense of $174 for the twelve months ended December 31, 2007, compared to expense of nil for fiscal 2006. Interest expense was comprised of interest expense charged on the Canadian Senior Term Loan Credit Facility and the UK Bank Loans acquired in the last quarter of fiscal 2007.

Interest Expense, Other
During the quarter ended December 31, 2007, interest expense was $239, compared to interest expense of $3 in the comparable quarter of 2006 and expense of $662 for the twelve months ended December 31, 2007, compared to expense of $24 for fiscal 2006. Interest expense, other was composed primarily of interest accretion amounts related to the earn outs payable on BabyZone and on the deferred purchase consideration on AmazingMoms and BubbleLabs.

Income Taxes (Recovery) Provision
The provision for or recovery of income taxes in the fourth quarter was a recovery of $1,142, compared to a recovery of $17 in the same quarter of 2006. The recovery for income taxes for fiscal 2007 was $1,881, compared to an income tax provision of $80 in fiscal 2006. The increase in the recovery of income taxes during the three-month and twelve-month periods ended December 31, 2007 was primarily the result of the reduction of certain valuation allowances that were booked against future income tax assets, which were no longer required in the fourth quarter of 2007.

Summary of Unaudited Quarterly Results

['000s omitted, except per share amounts]
The following table sets forth unaudited consolidated statements of operations data for the eight most recent quarters ended December 31, 2007, as prepared in accordance with Canadian GAAP. The information has been derived from management's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited financial statements for the years ended December 31, 2007 and 2006 and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented.

	2007 Q4	**2007 Q3**	**2007 Q2**	**2007 Q1**	2006 Q4	2006 Q3	2006 Q2	2006 Q1
Revenue	**$12,414**	**$8,339**	**$8,142**	**$6,578**	$8,822	$5,905	$3,505	$2,342
Net income (loss)	**$1,731**	**$113**	**$(55)**	**$(91)**	$2,107	$(224)	$(1,078)	$(895)
Income (loss) per share: diluted	**$0.02**	**$0.00**	**$0.00**	**$0.00**	$0.02	$0.00	$(0.02)	$(0.02)

Liquidity and Financial Resources

['000s omitted]

As at December 31, 2007, Kaboose had cash and cash equivalents of $13,499. In the three-month period ended December 31, 2007, cash provided by operating activities was $4,267, compared to cash used in operations of $305 as at December 31, 2006. For the twelve months ended December 31, 2007, cash provided by operating activities was $6,588, compared to cash used in operating activities of $2,441 for the twelve-month period ended December 31, 2006. Cash provided by operations in the fourth quarter and fiscal year of 2007 was primarily the result of growth in the Company's operations.

During the three-month periods ended December 31, 2007 and 2006, cash used in investing activities was $123,607 and $1,132, respectively, and was $142,383 and $30,691 for the twelve-month periods ended December 31, 2007 and 2006, respectively. During fiscal 2007, $102,409 of cash was used in investing activities related to the acquisitions of Bounty, AmazingMoms and BubbleLabs, $24,244 was used for restricted cash transactions, $5,340 was used for short-term investments, $5,981 of additions to goodwill, $2,137 towards development costs, $1,088 of cash was used to make payments on prior acquisitions and $1,184 of cash was used to purchase property, plant and equipment. In fiscal 2006, $24,172 of cash was used for the acquisitions of BabyZone and Two Peas, $4,662 was used for restricted cash transactions, $809 was spent on development costs and $936 of cash was used to purchase property, plant and equipment due to the expansion of the Company's facilities.

In the quarters ended December 31, 2007 and 2006, cash generated by financing activities was $119,469 and $555, respectively, and was $136,945 and $34,047 for fiscal years 2007 and 2006, respectively. Cash generated by financing activities in the fiscal year ended December 31, 2007 was a result of public offerings and the exercise of stock options and broker and compensation warrants, as well as the addition of long-term debt. In fiscal 2006, cash generated by financing activities resulted from the public offering and the exercise of stock options and broker and compensation warrants.

Summary of Contractual Obligations

['000s omitted]

	Total **$**	Less than 1 year $	1-3 years $	4-5 years $	After 5 years $
Capital lease obligations	**352**	195	157	-	-
Operating leases	**9,543**	1,851	3,023	1,619	3,050
Bank loans	**14,073**	2,158	7,012	4,903	-
Senior term loan credit facility	**11,000**	-	-	11,000	-
Accrued purchase consideration	**1,057**	888	169	-	-
Bounty notes payable	**16,133**	16,133	-	-	-
Earn-out amounts payable	**9,989**	9,989	-	-	-
TOTAL	**62,147**	**31,214**	**10,361**	**17,522**	**3,050**

In addition to the above contractual obligations, as at December 31, 2007, the Company had contingent consideration amounts of $446 and $496 that are payable related to the acquisition of Two Peas and BubbleLabs respectively. These amounts are only payable if certain milestones are achieved such as revenues and employee retention levels.

Foreign Exchange Fluctuations

The Company generates a significant portion of its revenue in US dollars with a smaller proportion of its costs denominated in US dollars. The Company is exposed to fluctuations in the exchange rate between the US dollar and the Canadian dollar as a result of the translation into Canadian dollars of that portion of its revenue and costs denominated in US dollars. With the acquisition of Bounty, the Company will also generate a substantial portion of its revenues in pounds sterling but with a similar proportion of costs also generated in pounds sterling. The Company does not currently utilize derivative financial instruments to minimize its foreign currency risk exposure. As a result, changes in the exchange rate between the Canadian dollar and the US dollar or pound sterling will affect its results of operations and financial condition. The Company continues to monitor its exposure to foreign currency risk exposure and the changing volatility in foreign exchange rates.

For the year ended December 31, 2007, the Company had a net foreign exchange loss of $299 [2006 - $368], which was included in the consolidated statements of earnings (loss) and was classified as selling, operating and administrative expenses.

In connection with the Bounty acquisition, the Company entered into a forward foreign exchange contract to purchase £58,000 in exchange for Canadian dollars on November 27, 2007. A gain of $1,355 was recorded in net foreign currency (gain) losses in the consolidated statements of earnings (loss) as this foreign exchange contract was accounted for as a non-hedge investment.

As a result of the fluctuations in the US dollar and pound sterling exchange rates, the Company incurred foreign exchange translation losses relating to the Company's net investment in self-sustaining operations amounting to $5,793 and $13,195 for the three-month and twelve-month periods ended December 31, 2007, respectively. These foreign exchange translation losses are reflected in accumulated other comprehensive income, a component of shareholders' equity, and are not reflected in net income for the period.

Capital Resources

The Company expects to use its cash on the balance sheet for select acquisitions and general corporate purposes.

Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Critical Accounting Estimates and Policies

The Company's financial statements for the twelve-month period ended December 31, 2007 and 2006 have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"]. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. The more significant assumptions made by management in the preparation of the Company's consolidated financial statements include, but are not limited to, the provision for doubtful accounts, tax credits receivable, fair value of equity instruments, provisions for clawbacks, valuation allowances and impairment assessments for various assets including inventory, property, plant and equipment, development costs, intangible assets, goodwill and future income taxes. Actual results could differ from those estimates.

Transactions with Related Parties

['000s omitted]

The Company received rent of $3 and $12 for the three-month period and fiscal year ended December 31, 2007 from a corporation controlled by an officer and director of the Company.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

Share Capital

As of the date hereof, there were 140,243,896 common shares issued and outstanding.

Proposed Transactions

The Company does not have any proposed transactions at this time.

Financial Instruments and Other Instruments

Under the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/liability	Category	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Short-term investments	Held-for-trading	Fair value
Restricted cash	Held-to-maturity	Amortized cost
Accounts and other receivables	Loans and receivables	Amortized cost
Interactive digital media tax credits receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Earn-out amounts payable	Other financial liabilities	Amortized cost
Bounty notes payable	Other financial liabilities	Amortized cost
Deferred purchase consideration	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

The Company had no financial instruments classified as available-for-sale during the year ended December 31, 2007.

Changes in the fair value of the Company's cash and cash equivalents and short term investments are included in the statements of earnings (loss).

Financing costs and credit facility arrangement fees associated with the issuance of long-term debt are netted against the carrying value of the related debt and are amortized using the effective interest rate method to interest expense over the period to maturity of the related debt.

The adoption of this standard had no significant impact on net earnings and net earnings per share for the year ended December 31, 2007.

The fair value of financial instruments, which include cash and cash equivalents, short-term investments, restricted cash, accounts receivable, other receivables, accounts payable, accrued liabilities and Bounty notes payable approximates their carrying value due to their short-term nature.

Other financial liabilities that are long-term in nature which include long-term debt and deferred purchase consideration are measured at amortized cost. Fair value approximates carrying value due to the nature of these instruments having short terms and/or variable interest rates.

The Company may undertake sales and purchase transactions in foreign currencies and, therefore, it is subject to gains or losses due to fluctuations in foreign currencies. The Company does not use derivative instruments to minimize its exposure to foreign currency risks.

The Company is exposed to interest rate risk in respect of the Senior term loan credit facility and the Bank loans in the event of fluctuation of prime or LIBOR.

Interest rate cap and collar transactions are used as part of the Company's program to manage the floating interest rate risk on the UK bank loans and the related overall cost of borrowing. These interest rate cap and collar transactions limit the fluctuation of the interest rate on the UK bank loans outstanding to a range of 6.75% to 8.75%. Interest rates on the UK bank loans outside of this range result in either a payable or receivable on the related financial instrument that would be settled quarterly in accordance with the agreement. The fair value of these instruments as at December 31, 2007 was $2.

Recent Accounting Pronouncements

The CICA has recently released the following new Handbook recommendations:

Section 1535, *Capital Disclosures*

Section 1535, *Capital Disclosures*, applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007, specifies disclosures of (1) information about the entity’s objectives, policies, and processes for managing capital structure; (2) quantitative data about what the entity regards as capital; and (3) whether the entity has complied with externally imposed capital requirements (for example bank covenants) and if it has not complied, the consequences of such non-compliance. The Company will adopt Section 1535 on January 1, 2008 and is currently evaluating the effect of adopting this standard.

Section 3031, ***Inventories***

Section 3031, *Inventories* ["Section 3031"], replaces Section 3030, *Inventories*. The main features of Section 3031 are: (1) measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; (2) cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of the individual costs; (3) consistent use (by type of inventory with similar nature and use) of either the first-in, first-out ["FIFO"] or weighted-average cost formula; (4) reversal of previous write-downs to net realizable value when there is a subsequent increase in value of inventories; and (5) possible classification of major spare parts and servicing stand-by equipment as property, plant and equipment (Section 3061, *Property, Plant and Equipment*, was amended to reflect this change). Section 3031 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and will be adopted by the Company on January 1, 2008. The Company is evaluating the effects of adopting this standard.

Section 3064, ***Goodwill and Intangible Assets***

In February 2008, the CICA issued new Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, *Financial Statement Concepts*. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The Company is currently evaluating the effects of adopting these changes.

Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Kaboose's Chief Executive Officer and Chief Financial Officer have made certain certifications related to the information in Kaboose's annual filings (as defined in Multilateral Instrument 52-109) with the provincial securities legislation.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the end of the year covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the year covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

There have been no changes in the Company's internal controls over financial reporting that occurred during fiscal 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Risks and Uncertainties

The following factors should be considered carefully in evaluating an investment in the securities of the Company.

Competitive Environment

The Company's future success depends in large part on the Company's ability to increase and sustain online advertising revenues. The markets in which the Company operates are highly competitive, and some of its competitors may be more successful in attracting and retaining customers. In addition, advertisers have a variety of media in which they can elect to advertise and generally have sufficient leverage to dictate many of the terms of their orders. If the Company cannot meet performance terms with its advertising clients or offer competitive advantages to its advertising clients, the number of advertising campaigns awarded to the Company and the number of clients it services may suffer. Moreover, increased competition could result in price reductions, particularly in advertising rates, and reduced margins, which could have a material adverse effect on the Company's future revenues and net income.

Maintaining User Base

The Company must continue to attract and retain users to compete successfully for advertising and subscription revenues. The Company cannot be sure that it will compete successfully with current or future competitors in sustaining or growing the Company's web site traffic levels and subscriber levels. If the Company fails to attract and retain more users, the Company's market share, brand acceptance and revenues would decline, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Failure to Safeguard Database and Consumer Privacy

The Company maintains a database which contains personally identifiable information on consumers of its products and services. Although the Company has security procedures in place, it may still be vulnerable to potential unauthorized access to, or use or inadvertent disclosure of consumer data. If the Company experiences a security breach, the reputation of the Company may be negatively affected. The Company may also be required to defend itself against potential litigation in the event that persons affected by the releases of such personal information seek damages with respect to such suits. The use of the Company's marketing services by partners could decline in the event of any publicized compromise of security. Any public perception that the Company released consumer information without authorization could subject the Company to complaints and investigation by the relevant privacy commissioners in Canada or elsewhere and could adversely affect the relationships the Company has with consumers and partners.

Acquisitions of Other Companies

The Company has acquired and in the future may seek to acquire, products or businesses that it believes are complementary to the Company's business plan. Acquisitions, including the acquisition of Bounty described herein, involve a number of risks, including: diversion of management's attention from current operations; disruption of the Company's ongoing business; difficulties in integrating and retaining all or part of the acquired business, its customers and its personnel; assumption of disclosed and undisclosed liabilities; dealing with unfamiliar laws, customs and practices in foreign jurisdictions; and the effectiveness of the acquired company's internal controls and procedures. The individual or combined effect of these risks could have a material adverse effect on the business of the Company. Furthermore, in paying for an acquisition, the Company may deplete its cash resources or dilute its shareholder base by issuing additional equity. There is also a risk that the Company's valuation assumptions, customer retention expectations and its models for an acquired product or business may be erroneous or inappropriate due to unforeseen circumstances and thereby cause the Company to overvalue an acquisition target. There is also a risk that the contemplated benefits of an acquisition may not materialize as planned or may not materialize within the time period or to the extent anticipated. In addition, difficulties in integrating acquired businesses with the Company's business could result in the unexpected loss of customers and revenue and have a material adverse effect on the Company's operating results.

Dependence on Key Personnel

The Company's success depends to a great extent upon the continued services of the Company's senior management group and its ability to identify, attract, retain and motivate highly skilled and dedicated, key employees and other personnel in a competitive job environment. If the Company loses key personnel or is unable to hire additional qualified personnel, or if its management team is unable to perform effectively, the Company will not be able to implement its growth plans or operate its business effectively.

Protection of Domain Names

The Company has registered various domain names relating to its brands. If it fails to maintain these registrations or a third party acquires domain names similar to the Company's and engages in a business that may be harmful to its reputation or confusing to its users and customers, the Company's revenues may decline and it may incur additional expenses in maintaining its brand and defending its reputation.

Reliance on Third Parities to Measure User Base

It is important to the Company's advertisers that it accurately measures the demographics of its user base and the delivery of advertisements on its web sites. The Company depends on third parties to provide many of these measurement services and to do so accurately and reliably. If these third parties are unable or unwilling to provide these services in the future, the Company would need to perform them internally or obtain them from another provider causing it to incur additional costs or cause interruptions in its business. Companies may choose not to advertise on the Company's web sites or may pay less for advertising if they perceive the demographic measurements as unreliable.

Maintaining Insurance

The Company contracts for insurance to cover potential risks and liabilities. Insurance companies are increasingly specific about what they will and will not insure. As a result, it is possible that the Company may not be able to get enough insurance to meet its needs, may have to pay very high prices for the coverage that it receives or may not be able to acquire any insurance for certain types of business risks, leaving it exposed to potential claims. If the Company or its officers or directors were found liable for a significant claim in the future, its operating results could be negatively impacted.

Future Sales of Common Stock

The Company cannot predict the effect, if any, that future sales of shares of its common shares, or the availability of shares of its common shares for future sale, will have on the market price of its common shares. Sales of substantial amounts of its common shares, including shares issued in connection with acquisitions, upon the exercise of shares, options or warrants or the conversion of debt securities or the perception that such sales could occur, are likely to adversely affect prevailing market prices for the Company’s common shares.

Share Dilution

The Company's articles permit the issuance of an unlimited number of common shares and if the Company was to issue a significant number common shares, it would reduce the relative voting power of previously outstanding common shares. Such future issuances could be at prices less than the shareholders paid for their common shares of the Company. Significant issuances of the Company’s common shares, or the perception that such issuances may occur, could impact, negatively or otherwise, the trading price of the Company’s common shares.

Because the success of the Company is highly dependent upon its employees, directors and consultants, it has and intends in the future to grant to some or all of its key employees, directors and consultants options or warrants to purchase shares of its common shares as non-cash incentives. Subject to certain limitations, those options may be granted at exercise prices below those for the common shares prevailing in the public trading market at the time, or may be granted at exercise prices equal to market prices at times when the public market is depressed. To the extent that significant numbers of such options may be granted and exercised, the interests of the other stockholders of the Company may be diluted. The Company is required to expense options issued.

Government Regulation

The Company is subject to federal, state, local and international laws affecting companies conducting business on the Internet, including user privacy laws, laws giving special protection to children, regulations prohibiting unfair and deceptive trade practices and laws addressing issues such as freedom of expression, pricing and access charges, quality of products and services, taxation, advertising, intellectual property rights and information security. The restrictions imposed by and the costs of complying with, current and possible future laws and regulations related to its business could limit the Company’s growth and reduce its membership base and revenues.

Insider Control

As of the date hereof, the Company’s principal stockholders, directors and executive officers and entities affiliated with them owned approximately 11% of the outstanding shares of common shares, not including options or warrants to purchase shares of common shares. As a result, these shareholders, acting together, would be able to influence or control matters requiring approval by the Company’s shareholders, including the election of directors, the adoption of equity incentive plans and the approval of mergers or other extraordinary transactions. These shareholders may have interests that differ from shareholders with smaller holdings. The concentration of ownership of the Company’s common shares could have the effect of delaying, preventing or deferring a change in control of the Company, deprive its shareholders of an opportunity to receive a premium for their common shares as part of a sale of the Company and affect the market price of its common shares.

Payment of Dividends

The Company has never paid dividends to holders of its common shares and does not anticipate that it will pay any cash dividends to holders of its common shares in the foreseeable future. The Company intends to invest its future earnings, if any, to fund growth.

Additional Information

Additional information related to the Company can be found on SEDAR at www.sedar.com.

® Registered trademark of Kaboose Inc., ™ Trademark of Kaboose Inc.

Consolidated Financial Statements

Kaboose Inc.
December 31, 2007 and 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Kaboose Inc. are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management chose those it deems to be most appropriate in the circumstances. The consolidated financial statements include amounts that are based on management's best estimates and best judgments. Management has determined these amounts in a reasonable way in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that contained in the consolidated financial statements.

Management maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and the Company's assets are appropriately accounted for and adequately safeguarded. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and has ultimate responsibility for examining and approving the consolidated financial statements. The Board of Directors exercises this responsibility principally through its Audit Committee. The Audit Committee met with management as well as with the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to ensure that all parties carry out their duties correctly and to examine the consolidated financial statements and the external auditors' report.

The Board of Directors and the Audit Committee of the Company have reviewed and approved these annual consolidated financial statements as well as Management's Discussion and Analysis. The Audit Committee reviews the consolidated financial statements with management and the external auditors and recommends the consolidated financial statements to the Board of Directors for approval. The consolidated financial statements have been audited on behalf of the shareholders by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted accounting principles. The external auditors, having been appointed by the shareholders to serve as the Company's external auditors, were given full and unrestricted access to the Audit Committee to discuss matters related to their audit and the reporting of information.

The Board of Directors has approved the Company's consolidated financial statements on the recommendation of the Audit Committee.

Jason DeZwirek	Jonathan Pollack
Chairman and Chief Executive Officer	Chief Financial Officer and Corporate Secretary

AUDITORS' REPORT

To the Shareholders of
Kaboose Inc.

We have audited the consolidated balance sheets of Kaboose Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss), comprehensive earnings (loss), cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 29, 2008

Chartered Accountants
Licensed Public Accountants

Kaboose Inc.

CONSOLIDATED BALANCE SHEETS

[in thousands]

As at December 31

	2007 $	2006 $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**13,499**	12,368
Short-term investments	**5,340**	–
Restricted cash *[note 4]*	**26,501**	4,662
Accounts receivable *[note 16]*	**15,202**	7,545
Interactive digital media tax credits receivable	**–**	390
Inventory	**733**	533
Prepaid expenses and other assets	**2,778**	797
Future tax assets *[note 15]*	**1,524**	–
Total current assets	**65,577**	26,295
Future tax assets *[note 15]*	**2,098**	–
Property, plant and equipment *[note 5]*	**4,331**	1,309
Development costs *[note 6]*	**2,516**	964
Intangible assets *[note 7]*	**103,190**	16,654
Goodwill *[note 8]*	**104,180**	23,349
	281,892	68,571
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable *[note 16]*	**8,809**	1,454
Accrued liabilities *[note 16]*	**7,944**	2,132
Earn-out amounts payable *[notes 3 and 4]*	**9,989**	5,248
Bounty notes payable *[note 4]*	**16,133**	–
Deferred purchase consideration *[note 3]*	**888**	–
Deferred revenue	**1,924**	266
Current portion of long-term debt *[note 9]*	**2,353**	52
Income taxes payable	**35**	311
Total current liabilities	**48,075**	9,463
Deferred purchase consideration *[note 3]*	**169**	–
Long-term debt *[note 9]*	**22,767**	139
Future tax liabilities *[note 15]*	**28,858**	6,427
Total liabilities	**99,869**	16,029
Contingencies and commitments *[notes 3 and 13]*		
Shareholders' equity		
Share capital *[note 10[a]]*	**195,070**	54,354
Contributed surplus	**3,454**	3,192
Accumulated other comprehensive income (loss)	**(11,319)**	1,876
Deficit	**(5,182)**	(6,880)
Total shareholders' equity	**182,023**	52,542
	281,892	68,571

See accompanying notes

On behalf of the Board:

"*Jason DeZwirek*"
Chairman and Chief Executive Officer

"*Bernard Kraft*"
Chairman of the Audit Committee

Kaboose Inc.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

[in thousands except per share information]

Years ended December 31

	2007 $	2006 $
Revenue *[notes 11 and 16]*	**35,473**	20,574
Expenses (income)		
Selling, operating and administrative *[notes 11, 12 and 16]*	**28,952**	17,880
Cost of commerce transactions	**3,762**	2,031
Interactive digital media tax credits	**(686)**	(390)
Net foreign currency (gains) losses *[note 16]*	**(1,091)**	(65)
Amortization	**4,907**	1,669
Restructuring charges *[note 17]*	**236**	–
Interest income	**(1,260)**	(565)
Interest expense on long-term debt	**174**	–
Interest expense, other	**662**	24
	35,656	20,584
Loss before income taxes	**(183)**	(10)
Provision for (recovery of) income taxes *[note 15]*		
Current	**41**	497
Future	**(1,922)**	(417)
	(1,881)	80
Net earnings (loss) for the year	**1,698**	(90)
Earnings per share *[note 19]*		
Basic	**$0.02**	–
Diluted	**$0.02**	–

See accompanying notes

Kaboose Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

[in thousands]

Years ended December 31

	2007 $	**2006** $
Net earnings (loss) for the year	**1,698**	(90)
Other comprehensive income (loss)		
Foreign currency translation adjustment *[note 16]*	**(13,195)**	1,915
Comprehensive earnings (loss) for the year	**(11,497)**	1,825

See accompanying notes

Kaboose Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands]

Years ended December 31

	2007 $	2006 $
OPERATING ACTIVITIES		
Net earnings (loss) for the year	**1,698**	(90)
Add (deduct) items not involving cash		
Amortization	**4,907**	1,669
Interest accretion expense	**506**	–
Unrealized foreign exchange	**(283)**	–
Stock-based compensation	**1,999**	506
Gain on expiry of note payable	**–**	(65)
Future income taxes	**(1,922)**	(417)
	6,905	1,603
Changes in non-cash working capital balances related to operations:		
Accounts receivable	**(821)**	(3,638)
Interactive digital media tax credits receivable	**390**	(390)
Inventory	**(207)**	(288)
Prepaid expenses and other assets	**(735)**	(369)
Accounts payable and accrued liabilities	**1,279**	1,298
Income taxes payable	**(292)**	(645)
Deferred revenue	**69**	(12)
Cash provided by (used in) operating activities	**6,588**	(2,441)
INVESTING ACTIVITIES		
Purchase of short-term investments	**(5,340)**	–
Purchases of property, plant and equipment	**(1,184)**	(936)
Additions to development costs, net of tax credits	**(2,137)**	(809)
Disposition of intangible assets	**–**	4
Contingent consideration paid *[note 3]*	**(5,981)**	(116)
Investment in restricted cash *[note 4]*	**(28,983)**	(4,662)
Proceeds from restricted cash *[note 4]*	**4,739**	–
Acquisitions *[note 3]*	**(102,409)**	(24,172)
Deferred purchase consideration paid *[note 3]*	**(1,088)**	–
Cash used in investing activities	**(142,383)**	(30,691)
FINANCING ACTIVITIES		
Proceeds from issuance of Common Shares, net of issuance costs *[note 10]*	**124,736**	33,610
Proceeds from exercise of stock options and warrants *[note 10]*	**1,560**	877
Repayment of obligations under capital leases	**(152)**	(30)
Proceeds from long-term debt	**10,801**	–
Repayment of notes payable	**–**	(410)
Cash provided by financing activities	**136,945**	34,047
Effect of exchange rate on cash and cash equivalents	**(19)**	–
Net increase in cash and cash equivalents during the year	**1,131**	915
Cash and cash equivalents, beginning of year	**12,368**	11,453
Cash and cash equivalents, end of year	**13,499**	12,368

Supplemental cash flow information *[note 18]*

See accompanying notes

Kaboose Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands, except number of shares]

	Common Shares #	Common Shares $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total shareholders' equity $
December 31, 2005	56,337,263	19,437	899	(39)	(6,790)	13,507
Common Shares issued for cash	26,570,700	33,610	–	–	–	33,610
Exercise of stock options	266,366	171	(48)	–	–	123
Exercise of Broker Warrants	310,301	191	(61)	–	–	130
Exercise of options and Agent Warrants	47,600	19	(24)	–	–	(5)
Exercise of Compensation Warrants	629,044	926	(297)	–	–	629
Issue of Babyzone Warrants	–	–	2,217	–	–	2,217
Stock-based compensation	–	–	506	–	–	506
Translation adjustments	–	–	–	1,915	–	1,915
Net loss for the year	–	–	–	–	(90)	(90)
December 31, 2006	84,161,274	54,354	3,192	1,876	(6,880)	52,542
Common Shares issued for cash	48,719,000	126,092	–	–	–	126,092
Shares issued in connection with Bounty acquisition	4,118,804	11,327	–	–	–	11,327
Exercise of stock options	2,326,396	1,550	(796)	–	–	754
Exercise of warrants	20,667	4	–	–	–	4
Exercise of Agent Warrants	8,550	3	(1)	–	–	2
Exercise of Babyzone Warrants	800,000	1,740	(940)	–	–	800
Stock-based compensation	–	–	1,102	–	–	1,102
Issue of restricted stock units	–	–	897	–	–	897
Translation adjustments	–	–	–	(13,195)	–	(13,195)
Net earnings for the year	–	–	–	–	1,698	1,698
December 31, 2007	**140,154,691**	**195,070**	**3,454**	**(11,319)**	**(5,182)**	**182,023**

See accompanying notes

1. DESCRIPTION OF THE BUSINESS

Kaboose Inc. ["Kaboose" or the "Company"] is a public company traded on the Toronto Stock Exchange under the symbol KAB and was formed under the Canadian Business Corporations Act.

The Company is a family-focused media company that generates revenue from online and offline advertising and online commerce transactions. The Company's online revenues are generated from advertising on the Kaboose.com, Bounty.com, BabyZone.com, Twopeasinabucket.com, Amazingmoms.com, Funschool.com, Zeeks.com and BubbleShare.com properties. Kaboose also generates offline revenues from the sale of product placement or advertising space in Bounty Group Limited's ["Bounty"] sample packs and through the sale of Bounty Club member data to third parties. Kaboose commerce transaction revenues are derived from online purchases at Birthdayinabox.com and Twopeasinabucket.com.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"]. The significant accounting policies are summarized as follows:

Change in accounting policies

Effective January 1, 2007, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3251: Equity; Section 1530: Comprehensive Income; Section 3855: Financial Instruments - Recognition and Measurement; and Section 3865: Hedges, retroactively, without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

[a] Equity and comprehensive income

Section 3251 describes standards for the presentation of equity and changes in equity during the period with reference to the new comprehensive income standard. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings calculated in accordance with Canadian GAAP. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except to present foreign currency translation gains and losses on self-sustaining foreign operations as part of accumulated other comprehensive income (loss).

The adoption of these Handbook Sections had no impact on opening deficit.

[b] Financial instruments

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/liability	**Category**	**Measurement**
Cash and cash equivalents	Held-for-trading	Fair value
Short-term investments	Held-for-trading	Fair value
Restricted cash	Held-to-maturity	Amortized cost
Accounts and other receivables	Loans and receivables	Amortized cost
Interactive digital media tax credits receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Earn-out amounts payable	Other financial liabilities	Amortized cost
Bounty notes payable	Other financial liabilities	Amortized cost
Deferred purchase consideration	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

The Company had no financial instruments classified as available-for-sale during the year ended December 31, 2007.

Changes in the fair value of the Company's cash and cash equivalents and short-term investments are included in the consolidated statements of earnings (loss).

Financing costs and credit facility arrangement fees associated with the issuance of long-term debt are netted against the carrying value of the related debt and are amortized using the effective interest rate method to interest expense over the period to maturity of the related debt.

The adoption of this standard had no significant impact on net earnings and net earnings per share for the year ended December 31, 2007.

[c] Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. The Company had no hedging relationships at December 31, 2007.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. The more significant assumptions made by management in the preparation of the Company's consolidated financial statements include, but are not limited to, the provision for doubtful accounts, tax credits receivable, fair value of equity instruments, provisions for clawbacks, valuation allowances and impairment assessments for various assets including inventory, property, plant and equipment, development costs, intangible assets, goodwill and future income taxes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with remaining maturities of 90 days or less at the time of purchase. As at December 31, 2007, cash and cash equivalents consist of cash on account of $7,570 [2006 - $1,595] and short-term, highly liquid investments of $5,929 [2006 - $10,773].

Short-term investments

Short-term investments consist of liquid investments with original maturities greater than 90 days at the time of purchase.

Tax credits

Assistance in the form of provincial tax credits on qualifying expenditures relating to the development of interactive digital media within Ontario are refundable to the Company. Tax credits are accrued when the Company has made qualifying expenditures, provided there is reasonable assurance that the credits will be realized. The Company accounts for tax credits relating to development costs that have been capitalized as a reduction of the capitalized development costs and tax credits relating to the amounts that have been expensed as a recovery in the consolidated statements of earnings (loss).

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is generally determined on a weighted average cost basis. In determining net realizable value, the Company considers factors such as shrinkage and the aging and future demand of the inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Land is not amortized. Amortization is calculated using the following rates and methods:

Office equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	straight-line over 3 years
Leasehold improvements	over the term of the lease

Capital leases

Leases are classified as either capital or operating. Those leases which transfer substantially all the benefits and risks of ownership of property to the Company are accounted for as capital leases. The capitalized lease obligations are included in long-term liabilities and reflect the present value of future lease payments, discounted at an appropriate interest rate.

Development costs

Development costs that meet specific criteria related to the technical, market and financial feasibility are capitalized. Tax credits related to specific qualifying expenditures are deducted from capitalized development costs and accrued as qualifying expenditures are incurred and collection is reasonably assured. Once the product is ready for use, the costs are amortized on a straight-line basis over the estimated useful life. The current estimated useful life of capitalized development costs is three years.

Intangible assets

Intangible assets acquired through asset acquisitions are initially recognized at fair value based on an allocation of the purchase price. Intangible assets with finite lives are amortized over their estimated useful lives. The Company does not have any indefinite-lived intangible assets. Intangible assets are reported at cost, less accumulated amortization. Amortization is calculated using the straight-line method based on the following estimated useful lives:

Customer relationships	3 to 15 years
Brand names	10 to 20 years
Content	5 to 8 years
Technology	3 to 5 years
Domain name and trademarks	2 to 10 years
Database	2 years

Impairment of long-lived assets

The Company evaluates the recoverability of long-lived assets, which include property, plant and equipment, development costs and intangible assets, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. This valuation is performed by comparing the carrying amounts of these assets to the related estimated undiscounted future cash flows expected to be derived from these assets. If these future cash flows are less than the carrying amount of the asset, then the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. There were no significant indicators of impairment of the carrying values of the Company's long-lived assets.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and intangible assets acquired at the date of acquisition.

Goodwill is not amortized but tested for impairment annually on October 1. The impairment test is carried out in two steps.

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

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

As at October 1, 2007, the Company had three [2006 - four] reporting units. During 2007, the Company integrated two reporting units.

Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. Revenues are earned through advertising, the distribution of marketing samples, data, photography, lead generation, commerce transactions, mailing programs and the promotion of certain family financial products. The Company considers revenues realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and the collectibility is reasonably assured. The Company's different revenue streams are recognized as follows:

[a] Advertising revenue is recognized commencing when the advertisements are posted on the Company's websites and is recognized based on the number of impressions, emails, lead generation or co-registrations generated through each advertisement on a monthly basis. Fixed fees for advertisements placed on the Company's websites are recognized on a straight-line basis over the period of the contract.

[b] Advertising revenue from publications is recorded net of any agency discounts and is recognized when the advertisement first appears in the publication.

[c] Revenue from the distribution of marketing samples, data, photography and presentations is recognized when all services have been provided including the delivery.

[d] Commerce transactions are sales of party and scrap-booking supplies that are recognized upon the shipment of goods to customers.

[e] Revenue from mailing programs is recognized upon completion of the mailing.

[f] Revenue from the promotion of family-related financial products is earned on a commission basis that is recognized net of any clawbacks. Clawbacks are estimated based on historical trends and also with reference to historical trends of similar financial products.

In arrangements that include more than one element, the Company allocates the total arrangement fee among each deliverable based on the relative fair value of each of the deliverables. For multiple element arrangements that do not qualify for separate units of accounting, revenue is recognized on the basis of a single unit of accounting over the term of the arrangement as services are performed. Such arrangements are primarily related to product sampling, data and other fixed fee services embedded in certain of Bounty's revenue contracts. The Company defers revenue when amounts are invoiced or received in advance of providing the service or products.

Stock-based compensation

The Company has a stock-based compensation plan which is described in note 10[b].

Stock options and warrants awarded to non-employees are accounted for using the fair value method and stock options and warrants awarded to employees on or after January 1, 2003 are accounted for using the fair value method. The fair value of stock options granted is recognized on a straight-line basis over the applicable stock option vesting period as compensation expense included in selling, operating and administrative expenses in the consolidated statements of earnings (loss) and contributed surplus within shareholders' equity on the consolidated balance sheets. On the exercise of stock options, the total of the consideration received and the accumulated contributed surplus relating to those options is credited to share capital.

Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 10[b].

During 2007, the Company amended its Stock Option Plan to include Restricted Stock Units ["RSUs"]. RSUs give the holder the right to one Common Share for each vested restricted share plan unit. Stock-based compensation expense related to RSUs is accrued over the term of the vesting period. The fair market value of the RSUs is based on the closing price of the Company's Common Shares on the day of the grant.

Foreign currency translation

The assets and liabilities of the Company's self-sustaining operations having a functional currency other than Canadian dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet dates, and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

For integrated foreign operations, monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at foreign exchange rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net earnings.

Effective October 1, 2007, a subsidiary that had previously been accounted for as a self-sustaining foreign operation is now translated as an integrated foreign operation.

Other exchange gains and losses are included in net earnings.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the future tax assets or liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Future tax assets and liabilities are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce future income tax assets to the amount expected to be realized.

Earnings per share

Earnings per share is calculated by dividing net earnings by the weighted average number of Common Shares outstanding during the year. Diluted earnings per share is calculated by dividing net earnings by the weighted average number of Common Shares outstanding during the year after giving effect to potentially dilutive financial instruments. The dilutive effect of stock options, warrants and RSUs is determined using the treasury stock method.

3. BUSINESS COMBINATIONS

Acquisitions are accounted for under the purchase method of accounting with the results of operations of the acquired businesses being included in the accompanying consolidated financial statements since their dates of acquisition.

The allocations of the purchase prices were based on the fair value of identifiable assets, including intangible assets acquired and liabilities assumed at the effective date of the acquisitions, and other information available at those dates, and the balance if any, being allocated to goodwill. The fair value allocated to intangible assets for each acquisition was determined by an independent valuator.

2007 Acquisitions

During 2007, the Company completed the acquisitions of Bounty Group Ltd. ["Bounty"], Amazingmoms Inc. ["Amazingmoms"] and Bubble Labs Inc. ["Bubblelabs"] as described below.

[a] Bounty

In November 2007, a subsidiary of the Company acquired all of the issued and outstanding shares of Bounty for total consideration of $130,227 [£63,541] including transaction costs of $2,742 and net of cash acquired from Bounty of $1,200. The total consideration was satisfied through the issuance of 4,118,804 Common Shares of the Company at a fair value of $11,327, the issuance of loan notes ["Bounty notes payable"], which are due prior to June 2008, in the amount of $16,857, denominated in pounds sterling, and the balance of $99,301 in cash. Cash includes $11,085 relating to the repayment of Bounty shareholder loans.

As a closing condition, the Company was required to deposit an amount in escrow equivalent to the amount due under the Bounty notes payable of $16,857 *[note 4].*

[b] Amazingmoms

In March 2007, the Company acquired substantially all of the assets of Amazingmoms for total consideration of $1,742 [US$1,495], including transaction costs of $88. Cash of $877 was paid on closing and the balance of $777 plus imputed interest is payable in four installments by March 2009. The deferred purchase consideration on acquisition has been recorded as a liability using a discount rate of 10% per annum. In October 2007, the Company paid the first installment and at December 31, 2007, the deferred purchase consideration remaining was $520.

[c] Bubblelabs

On January 4, 2007, the Company acquired all the issued and outstanding shares of Bubblelabs for total consideration of $2,629 [US$2,063], including transaction costs of $101. Cash of $1,000 was paid on closing and the balance of $1,528 plus imputed interest is payable in three installments by July 2008. The deferred purchase consideration on acquisition has been recorded as a current liability using a discount rate of 10% per annum. In July 2007, the Company paid the first installment and at December 31, 2007, the deferred purchase consideration remaining was $537.

In addition to the total consideration indicated above, the Company may be required to make certain additional payments up to a maximum amount of US$750, payable in three installments by July 2008. This potential additional consideration is contingent on certain employees of Bubblelabs remaining with that company. In July 2007, an amount of $265 was paid and was accounted for as additional goodwill. At December 31, 2007, US$500 of potential additional purchase consideration was remaining, where the terms of the contingency have not yet been met. These potential additional amounts will be accounted for if the terms of the contingency are met and further payments are made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[in thousands]

December 31, 2007 and 2006

The allocation of the purchase price in respect of the acquisitions of Bubblelabs, Amazingmoms and Bounty is summarized as follows.

	Bubblelabs	**Amazingmoms**	**Bounty**	**Total**
	$	$	$	$
Assets				
Accounts receivable	–	–	7,538	7,538
Inventory	–	–	128	128
Prepaid expenses and other assets	–	–	1,489	1,489
Property, plant and equipment	–	–	2,433	2,433
Intangible assets				
Customer relationships	–	857	52,833	53,690
Brand name	–	–	31,189	31,189
Database	–	–	8,516	8,516
Content	–	638	–	638
Technology	2,300	–	–	2,300
Trademarks	100	247	–	347
Goodwill	229	–	77,030	77,259
	2,629	1,742	181,156	185,527
Liabilities				
Accounts payable and accrued liabilities	–	–	(8,875)	(8,875)
Deferred revenue	–	–	(1,700)	(1,700)
Income taxes payable	–	–	(23)	(23)
Long-term debt	–	–	(14,705)	(14,705)
Future tax liabilities	–	–	(25,626)	(25,626)
	–	–	(50,929)	(50,929)
Net assets acquired	**2,629**	**1,742**	**130,227**	**134,598**
Consideration				
Cash paid on closing, net of cash acquired	1,000	877	99,301	101,178
Expenses related to acquisition	101	88	2,742	2,931
Issuance of Common Shares	–	–	11,327	11,327
Notes payable	–	–	16,857	16,857
Deferred purchase consideration	1,528	777	–	2,305
	2,629	**1,742**	**130,227**	**134,598**

2006 Acquisitions

During 2006, the Company completed the acquisitions of Babyzone.com Inc. ["Babyzone"] and Two Peas Inc. ["Two Peas"].

[a] Babyzone

On June 12, 2006, the Company acquired all the issued and outstanding shares of Babyzone for cash consideration of $22,966 [US$20,913], 1,886,360 warrants and certain additional payments up to a maximum amount of US$15,000. Each warrant gives the holder the right to purchase one Common Share of the Company at the price of $1.00 per share and has a term of 10 years. The fair value of the warrants has been estimated at $2,217 using the Black-Scholes option pricing model.

Upon achieving certain revenue milestones, the Company is required to pay the former shareholders of Babyzone amounts up to US$4,500 and US$10,500 for fiscal years 2006 and 2007, respectively. The Company had the option to settle a certain portion of these earn-out amounts by issuing Common Shares. These earn-out amounts are determined as follows:

[i] in respect of the year ended December 31, 2006, if revenue exceeds US$4,400, then one-third of revenues up to US$6,000, and 100% of revenues in excess of US$6,000 up to US$8,500;

[ii] in respect of the year ending December 31, 2007, subject to revenue exceeding US$6,000, one quarter of revenues up to US$8,000; and

[iii] in respect of revenues for the year ending December 31, 2007, 100% of the revenues in excess of US$8,000 up to US$16,500 and up to US$3,000 of confirmed insertion orders received prior to January 15, 2008 for the 2008 calendar year, for a maximum payment of US$8,500.

During the year ended December 31, 2006, the Company accrued earn-out payments amounting to $5,096 [US$4,372] to the former shareholders of Babyzone which were included in earn-out amounts payable and goodwill at December 31, 2006. This accrual was based on Babyzone's actual revenues through December 31, 2006. During 2007, the Company paid $5,181 [US$4,372] in respect of the earn-outs.

On March 15, 2007, to facilitate the further integration of Babyzone, the Company settled the remaining contingent payments by agreeing to pay the former shareholders of Babyzone US$10,000 on March 1, 2008. The Company has placed an equivalent amount of cash in escrow *[note 4]*. The payable was recorded in goodwill at its fair value of $11,184 using a discount rate of 4.5% per annum. At December 31, 2007, the earn-out amount payable recorded as a current liability was $9,840 [US$9,927]. In addition, in 2007 the Company incurred additional costs of $24 relating to the Babyzone acquisition which have been included in goodwill.

[b] Two Peas

On May 11, 2006, the Company acquired the assets of Two Peas for cash consideration of $661 [US$600].

[in thousands]

If certain revenue and profit milestones were achieved, the Company would be required to pay the former shareholders of Two Peas amounts up to US$700 during the first 12 months after the acquisition and a further US$700 during the following 12-month period. At December 31, 2006, the Company recorded earn-out amounts of $268 as a result of Two Peas achieving revenue milestones, of which $116 has been paid and $152 is accrued and included in earn-out amounts payable as at December 31, 2006. The 2006 earn-out amount of $268 was recorded in goodwill and the amount payable as at December 31, 2006 was paid in 2007.

During 2007, further milestones were achieved and the Company recorded additional earn-out amounts of $523 as goodwill. At December 31, 2007, a total of $149 in earn-out amounts remained payable.

The allocation of the purchase price in respect of the acquisitions of Babyzone and Two Peas is summarized as follows:

	Babyzone $	**Two Peas** $	**Total** $
Assets			
Accounts receivable	1,898	7	1,905
Prepaid expenses	41	–	41
Inventory	–	6	6
Other assets	184	–	184
Property, plant and equipment	242	6	248
Intangible assets			
Customer relationships	5,492	–	5,492
Brand name	5,601	329	5,930
Technology	549	193	742
Content	4,613	–	4,613
Goodwill	16,304	178	16,482
	34,924	719	35,643
Liabilities			
Accounts payable and accrued liabilities	(919)	(10)	(929)
Income taxes payable	(956)	–	(956)
Deferred revenue	(265)	–	(265)
Obligations under capital lease	(124)	–	(124)
Notes payable	(410)	–	(410)
Future tax liabilities	(6,570)	–	(6,570)
	(9,244)	(10)	(9,254)
Net assets acquired	**25,680**	**709**	**26,389**
Consideration			
Cash paid on closing, net of cash acquired	22,966	661	23,627
Expenses related to acquisition	497	48	545
Warrants issued	2,217	–	2,217
	25,680	**709**	**26,389**

[in thousands]

4. RESTRICTED CASH

Restricted cash is not available for general purposes and is comprised as follows:

	2007 $	2006 $
Related to earn-out amount payable *[a]*	**10,283**	4,662
Related to Bounty notes payable *[b]*	**16,218**	–
	26,501	4,662

[a] The Company has $10,283 [US$10,373] [2006 - $4,662] held in an escrow account as security for the payment of earn-out amounts due to the former shareholders of Babyzone related to its acquisition *[note 3]*. The restricted cash including interest earned will be utilized to settle the accrued earn-out amounts in March 2008. The restricted cash on hand at December 31, 2006 was used to settle accrued earn-out amounts during 2007.

[b] The Company has $16,218 [£8,268] held in an escrow account as security for the amount due under the loan notes issued in respect of the Bounty acquisition *[note 3].* Interest is payable on the Bounty notes payable at an amount equal to the interest earned on the amount deposited in escrow, net of withholding tax. This restricted cash, including interest earned, will be utilized to pay the loan notes prior to June 30, 2008.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2007			2006		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Land	**1,187**	**–**	**1,187**	–	–	–
Office equipment	**775**	**(189)**	**586**	551	(93)	458
Computer equipment	**1,799**	**(439)**	**1,360**	556	(190)	366
Computer software	**1,163**	**(436)**	**727**	622	(183)	439
Leasehold improvements	**600**	**(129)**	**471**	108	(62)	46
	5,524	**(1,193)**	**4,331**	1,837	(528)	1,309

As at December 31, 2007, included in property, plant and equipment is computer and office equipment acquired under capital leases with a cost of $525 [2006 - $270] and related accumulated amortization of $131 [2006 - $56].

Amortization expense related to property, plant and equipment for the year ended December 31, 2007 was $720 [2006 - $291].

[in thousands]

6. DEVELOPMENT COSTS

Amortization expense related to development costs for the year ended December 31, 2007 was $523 [2006 - $138]. Development costs have been reduced by related interactive digital media tax credits in the year ended December 31, 2007 of $10 [2006 - nil].

As at December 31, 2006, $619 of development costs were not being amortized as the project was not ready for use.

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2007			2006		
	Cost	**Accumulated amortization**	**Net book value**	**Cost**	**Accumulated amortization**	**Net book value**
	$	$	$	$	$	$
Customer relationships	**56,266**	**(1,465)**	**54,801**	5,827	(401)	5,426
Database	**8,150**	**(338)**	**7,812**	–	–	–
Brand names	**35,218**	**(967)**	**34,251**	6,292	(349)	5,943
Content	**4,721**	**(891)**	**3,830**	4,895	(337)	4,558
Technology	**2,798**	**(717)**	**2,081**	583	(107)	476
Domain name and trademarks	**887**	**(472)**	**415**	613	(362)	251
	108,040	**(4,850)**	**103,190**	18,210	(1,556)	16,654

Amortization for the year ended December 31, 2007 was $3,664 [2006 - $1,240].

8. GOODWILL

Goodwill consists of the following:

	2007	2006
	$	$
Balance, beginning of year	**23,349**	531
Bounty acquisition *[note 3]*	**77,030**	–
Babyzone acquisition *[note 3]*	**11,207**	–
Two Peas acquisition *[note 3]*	**523**	21,400
Bubblelabs acquisition *[note 3]*	**495**	446
Foreign exchange revaluation	**(8,424)**	972
Balance, end of year	**104,180**	23,349

[in thousands]

9. LONG-TERM DEBT

	2007 $	2006 $
Senior term loan credit facility [a]	**10,722**	–
Bank loans [b]	**14,046**	–
Capital lease obligations	**352**	191
	25,120	191
Less current portion included in current liabilities	**(2,353)**	(52)
	22,767	139

[a] In November 2007, the Company entered into an $11,000 senior term loan credit facility with a Canadian financial institution. The facility is repayable on November 15, 2012. Interest is payable monthly at a rate that is based on prime or LIBOR. The interest margin above prime or LIBOR varies according to the ratio of net debt to consolidated earnings before interest, taxes, depreciation and amortization, as defined in the credit facility. In 2007, the average effective interest rate was 7.37%. The Company and certain of its subsidiaries, excluding the assets of Bounty, have pledged their assets as security for the borrowings under the facility. The Company has provided covenants to its lender and was in full compliance with the covenants in respect of 2007.

[b] At December 31, 2007, bank loans include a term loan of $9,170 [£4,675] repayable in quarterly installments by November 30, 2011. The interest rate on the loan is 2.25% above LIBOR. A further bank loan of $4,903 [£2,500] is repayable on December 31, 2012 and the interest rate on this loan is 2.75% above LIBOR. The effective interest rate on these loans, since the date of the acquisition of Bounty, was 8.45%. Bounty has pledged its assets as security for the bank loans. Bounty has provided covenants to its lender and was in full compliance with the covenants in respect of 2007.

[c] Debt repayment requirements

	2008 $	2009 $	2010 $	2011 $	2012 $
Senior term loan credit facility	–	–	–	–	11,000
Bank loans	2,158	2,158	2,157	2,697	4,903
Capital lease obligations	195	115	40	2	–
	2,353	2,273	2,197	2,699	15,903

[d] The Company leases computer and office equipment under capital leases expiring on various dates to the year 2011. The leases have an average interest rate of 9%.

10. SHAREHOLDERS' EQUITY

[a] Share capital

[i] The Company is authorized to issue an unlimited number of Common Shares.

[ii] During January 2007, the Company issued 6,900,000 Common Shares through a public offering at a price of $2.50 per share for gross proceeds of $17,250. Total cash issue costs were $1,171, resulting in a future tax asset of $383 and net proceeds of $16,462.

[iii] During November 2007, the Company issued 41,819,000 Common Shares through a public offering at a price of $2.75 per share for gross proceeds of $115,002. Total cash issue costs were $7,971, resulting in a future tax asset of $2,599 and net proceeds of $109,630.

[iv] During November 2007, the Company issued 4,118,804 Common Shares at a price of $2.75 per share for a total of $11,327 as part of the consideration for the acquisition of the shares of Bounty *[note 3].*

[v] During June 2006, the Company issued 26,570,700 Common Shares through a public offering at a price of $1.40 per share. Total cash issue costs were $3,589, resulting in net proceeds of $33,610.

[vi] During the year ended December 31, 2007, 2,326,396 Common Shares were issued on the exercise of the same number of options. The amount credited to share capital was $1,550, including cash proceeds of $754. During the year ended December 31, 2006, 266,366 Common Shares were issued on the exercise of the same number of options. The amount credited to share capital was $171, including cash proceeds of $123.

[vii] During the year ended December 31, 2007, 20,667 Common Shares were issued on the exercise of the same number of warrants for cash proceeds of $4.

[viii] During the year ended December 31, 2007, 8,550 Common Shares were issued on the exercise of the same number of Agent Warrants. The amount credited to share capital was $3, including cash proceeds of $2. During the year ended December 31, 2006, 47,600 Common Shares were issued on the exercise of the same number of Agent Warrants. The amount credited to share capital was $19, including cash proceeds of $12.

[ix] During the year ended December 31, 2007, 800,000 Common Shares were issued on the exercise of the same number of Babyzone Warrants. The amount credited to share capital was $1,740, including cash proceeds of $800.

[x] During the year ended December 31, 2006, 310,301 Common Shares were issued on the exercise of the same number of Broker Warrants. The amount credited to share capital was $191, including cash proceeds of $130.

[xi] During the year ended December 31, 2006, 629,044 Common Shares were issued on the exercise of the same number of Compensation Warrants. The amount credited to share capital was $926, including cash proceeds of $629.

[b] Stock incentives

On May 17, 2007, the Company established the 2007 Stock Incentive Plan for its directors, employees and consultants, whereby stock options or RSUs may be granted subject to certain terms and conditions. The vesting period, the term and the exercise price in respect of all stock options granted under this plan will be determined by the Board of Directors of the Company [the "Board"], but in any event the exercise price will not be less than the market value of the Company's Common Shares on the day of the grant. The Board will also determine the vesting terms for all RSUs granted. The May 17, 2007 Stock Incentive Plan replaced the Company's October 17, 2005 plan.

[in thousands]

[i] Stock options

Changes in the number of stock options, with their weighted average exercise prices, are summarized below:

	2007		2006	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Outstanding, beginning of year	**7,092,682**	**0.53**	5,855,032	0.32
Granted	**1,427,000**	**3.11**	1,465,500	1.34
Forfeited	**(525,503)**	**2.03**	(61,484)	0.29
Exercised	**(2,326,396)**	**0.32**	(166,366)	0.46
Outstanding, end of year	**5,667,783**	**1.13**	7,092,682	0.53
Options exercisable, end of year	**3,114,186**	**0.42**	3,787,913	0.26

The following table summarizes information about stock options at December 31, 2007:

	Options outstanding			Options exercisable	
Range of exercise prices $	Number of options #	Weighted average remaining contractual life [years]	Weighted average exercise price $	Number of options #	Weighted average exercise price $
0.00 – 0.21	329,206	2.6	0.21	329,206	0.21
0.22 – 0.29	1,722,100	1.5	0.25	1,722,100	0.25
0.30 – 0.45	345,601	2.2	0.39	144,099	0.39
0.45 – 0.70	1,092,666	2.5	0.57	663,429	0.56
0.71 – 1.00	287,675	3.0	0.96	39,998	0.95
1.01 – 1.40	463,535	3.5	1.37	148,688	1.37
1.41 – 2.00	200,000	3.9	2.00	66,666	2.00
2.01 – 3.00	593,500	4.8	2.69	–	–
3.01 – 4.00	633,500	4.3	3.44	–	–
	5,667,783	**2.8**	**1.12**	**3,114,186**	**0.42**

[in thousands]

The fair value of stock options granted during the year is determined using the Black-Scholes stock option pricing model and is amortized into the consolidated statements of earnings (loss) on a straight-line basis over the stock options' vesting periods.

	2007	**2006**
Fair value of stock options granted during the year	**$2,680**	$1,341
Weighted average assumptions		
Risk-free interest rate	**4.5%**	4.5%
Dividend yield	**0%**	0%
Volatility	**87%**	85%
Expected option life	**4 years**	4 years

The compensation expense recorded for the year ended December 31, 2007 in respect of the stock options granted was $1,102 [2006 - $506].

[ii] Restricted stock units

During 2007, pursuant to the 2007 Stock Incentive Plan, the Company granted 2,000,000 RSUs to directors, employees and consultants. The RSUs entitle the participant to one Common Share of the Company for each vested RSU. The vesting period determined by the Board is three years, and the RSUs vest rateably on each yearly anniversary of the grant. Common Shares are issued immediately upon the vesting of an RSU.

The compensation expense recorded for the year ended December 31, 2007 in respect of the RSUs granted was $897. The fair value of the RSUs granted during the year ended December 31, 2007 was $6,388.

In addition, in November 2007, related to the Bounty acquisition, the Company granted 1,680,000 RSUs. The RSUs entitle the participant to one Common Share of the Company for each vested RSU. The vesting period determined by the Board is three years and vesting is dependent on the performance of the subsidiary company. The RSUs will vest rateably on each yearly anniversary of the grant, but the amount that will vest is wholly dependent on the performance of the subsidiary. These RSUs will be recorded in the consolidated financial statements when it is probable that they will vest.

[c] Warrants

The warrants outstanding as at December 31, 2007 are as follows:

	Number of warrants **#**	**Expiry date**	**Exercise price** $
Warrants	361,665	September 26, 2008	0.21
Babyzone Warrants	1,086,360	June 13, 2016	1.00

11. NON-MONETARY TRANSACTION

During 2005, the Company entered into a barter arrangement with a customer whereby advertising on the Company's online media properties and web development services were being provided in exchange for reciprocal advertising space on the customer's product labels. The arrangement commenced during September 2005 and ended in July 2006. The transaction was recorded at the fair value of the advertising provided by the Company. The fair value of the advertising was based on the Company's own historical cash-based advertising transactions with other advertising customers unrelated to the parties of this barter arrangement. During the year ended December 31, 2006, the Company included in both revenue and selling, operating and administrative expenses an amount of approximately $331 related to this non-monetary transaction.

[in thousands]

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company charged rent of $12 [2006 - $12] to a corporation controlled by an officer and director of the Company.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

13. COMMITMENTS

The Company is committed to future minimum annual lease payments with respect to operating leases as follows:

	$
2008	1,851
2009	1,696
2010	1,327
2011	870
2012	749
2013 and thereafter	3,050
	9,543

14. SEGMENTED INFORMATION

The Company's operations are conducted in three reportable operating segments: online advertising, commerce transactions and marketing services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management evaluates the reportable segments' performance based on revenues. There are no revenue transactions between the three reportable segments.

[in thousands]

Reportable segment information

	2007 $	2006 $
Revenues		
Online advertising	**22,982**	15,705
Commerce transactions	**7,860**	4,869
Marketing services	**4,631**	–
	35,473	20,574
Net earnings (loss)		
Online advertising	**1,282**	(234)
Commerce transactions	**171**	144
Marketing services	**245**	–
	1,698	(90)

	Online advertising		Commerce transactions		Marketing services	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Long-term assets						
Property, plant and equipment	**1,705**	959	**311**	350	**2,315**	–
Development costs	**2,205**	750	**311**	214	**–**	–
Intangible assets	**15,019**	16,115	**405**	539	**87,766**	–
Goodwill	**29,106**	22,340	**1,354**	1,009	**73,720**	–

Geographical information

Revenues are determined based on location of customer.

	2007 $	2006 $
Revenues		
United States	**29,812**	20,060
Canada	**1,030**	514
United Kingdom	**4,631**	–
	35,473	20,574

Property, plant and equipment, development costs, intangible assets and goodwill are located as follows:

	2007 $	2006 $
United States	**41,720**	40,952
Canada	**8,696**	1,324
United Kingdom	**163,801**	–

[in thousands]

15. INCOME TAXES

The provision for (recovery of) income taxes differs from the amount obtained by applying the combined federal and state statutory income tax rate to loss before income taxes. The difference relates to the following items:

	2007 $	2006 $
Combined statutory income tax rate	**36.12%**	36.12%
Expected income tax recovery	**(66)**	(4)
Decrease (increase) in income tax recovery resulting from:		
Permanent differences	**418**	298
Foreign tax rate differential	**(27)**	(28)
Withholding tax	**300**	115
Valuation allowance	**(2,494)**	(318)
Other rate change	**(12)**	17
	(1,881)	80

The components of the Company's net future income tax liabilities at December 31 are as follows:

	2007 $	2006 $
Non-capital loss carryforwards	**1,484**	1,989
Share issuance costs	**3,358**	396
Property, plant and equipment and intangible assets	**(29,944)**	(6,680)
	(25,102)	(4,295)
Valuation allowance	**(134)**	(2,132)
Net future income tax liabilities	**(25,236)**	(6,427)

The non-capital loss carryforwards amounting to $6,403 relate to Canada and the United States and expire between 2012 and 2027.

16. FINANCIAL INSTRUMENTS

Fair value

The fair value of financial instruments, which include cash and cash equivalents, short-term investments, restricted cash, accounts receivable, other receivables, accounts payable, accrued liabilities and Bounty notes payable approximates their carrying value due to their short-term nature.

Other financial liabilities that are long-term in nature which include long-term debt and deferred purchase consideration are measured at amortized cost. Fair value approximates carrying value due to the nature of these instruments having short terms and/or variable interest rates.

Interest rate risk

The Company is exposed to interest rate risk in respect of the Senior term loan credit facility and the Bank loans in the event of fluctuation of prime or LIBOR *[note 9].*

Interest rate cap and collar transactions are used as part of the Company's program to manage the floating interest rate risk on the bank loans and the related overall cost of borrowing. These interest rate cap and collar transactions limit the fluctuation of the interest rate on the bank loans outstanding to a range of 6.75% to 8.75%. Interest rates on the bank loans outside of this range result in either a payable or receivable on the related financial instrument that would be settled quarterly in accordance with the agreement. The fair value of these instruments as at December 31, 2007 was $2.

Credit risk

As at December 31, 2007, 2 customers accounted for 32% of the Company's total accounts receivable balance. As at December 31, 2006, 2 customers accounted for 16% of the Company's total accounts receivable balance.

Foreign currency risk

The Company's activities result in exposure to fluctuations in foreign currency exchange rates due to sale and purchase transactions in foreign currency. The Company does not use derivative financial instruments to hedge currency risk on day-to-day activities.

In connection with the Bounty acquisition, the Company entered into a forward foreign exchange contract to purchase £58,000 in exchange for Canadian dollars on November 27, 2007. A gain of $1,355 was recorded in net foreign currency (gains) losses in the consolidated statements of earnings (loss) as this foreign exchange contract was accounted for as a non-hedge investment.

The Company has net foreign currency translation losses of $13,195 [2006 - gains of $1,915], resulting from the translation of self-sustaining operations, which are included in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2007. The fluctuation in the US dollar and pound sterling relative to the Canadian dollar, in connection with the Company's investments in Babyzone and Bounty, has resulted in this translation loss as at December 31, 2007.

For the year ended December 31, 2007, the Company had a net operating foreign exchange loss of $299 [2006 - $368] which is included in the consolidated statements of earnings (loss) and is classified as selling, operating and administrative expenses.

[in thousands]

As at December 31, 2007 and 2006, of the Company's accounts receivable, accounts payable and accrued liabilities, the following percentages are denominated in US dollars and pounds sterling.

	2007		2006	
	US$	**£**	**US$**	**£**
	%	%	%	%
Accounts receivable	**53**	**44**	98	–
Accounts payable	**12**	**53**	72	–
Accrued liabilities	**12**	**73**	75	–

During the year ended December 31, 2007 and December 31, 2006 the following percentages of the revenues and expenses were earned or incurred in US dollars and pounds sterling.

	2007		2006	
	US$	**£**	**US$**	**£**
	%	%	%	%
Revenues	**83**	**13**	98	–
Expenses	**50**	**11**	70	–

17. RESTRUCTURING

Restructuring charges comprise of termination costs paid to certain employees during the year.

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

The consolidated statements of cash flows exclude the following non-cash investing and financing transactions:

	2007	**2006**
Contingent consideration *[note 3]*	**11,381**	5,248
Transfer between contributed surplus and share capital upon conversion of warrants and options	**1,737**	430
Additions to property, plant and equipment under capital lease	**331**	58
Bounty notes payable	**16,857**	–
Common shares issued in connection with the Bounty acquisition	**11,327**	–
Deferred purchase consideration *[note 3]*	**2,305**	–

Supplemental cash flow information is as follows:

	2007	**2006**
	$	$
Income taxes paid	**414**	586
Interest expense paid	**87**	–

[in thousands]

19. EARNINGS PER SHARE

The number of shares used in the calculation of basic and diluted earnings (loss) per share for the year ended December 31 is set out below. The potential dilutive effect of stock options, warrants and RSUs outstanding at December 31, 2007 is computed using the treasury stock method on the weighted average number of Common Shares outstanding.

	2007 **#**	**2006** **#**
Weighted average number of Common Shares - basic	**97,009**	71,216
Effect of dilutive securities		
Stock options	**1,356**	–
Warrants	**773**	–
RSUs	**134**	–
Weighted average number of Common Shares – diluted	**99,272**	71,216

For the year ended December 31, 2006, all dilutive instruments such as stock options and warrants were excluded from the calculation of diluted loss per share as the effect of including them would have been anti-dilutive.

20. RECENT ACCOUNTING PRONOUNCEMENTS

The CICA has recently released the following new Handbook recommendations:

(i) Section 1535, *Capital Disclosures*

Section 1535, *Capital Disclosures*, applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007, specifies disclosures of (1) information about the entity's objectives, policies, and processes for managing capital structure; (2) quantitative data about what the entity regards as capital; and (3) whether the entity has complied with externally imposed capital requirements (for example bank covenants) and if it has not complied, the consequences of such non-compliance. The Company will adopt Section 1535 on January 1, 2008 and is currently evaluating the effect of adopting this standard.

(ii) Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*

These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. The Company will adopt Section 3862 and Section 3863 on January 1, 2008 and is currently evaluating the effects of adopting these standards.

(iii) Section 3031, *Inventories*

Section 3031, *Inventories* ("Section 3031") replaces Section 3030, *Inventories*. The main features of Section 3031 are: (1) measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; (2) cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of the individual costs; (3) consistent use (by type of inventory with similar nature and use) of either the first-in, first-out [FIFO] or weighted-average cost formula; (4) reversal of previous write-downs to net realizable value when there is a subsequent increase in value of inventories; and (5) possible classification of major spare parts and servicing stand-by equipment as property, plant and equipment (Section 3061, *Property, Plant and Equipment*, was amended to reflect this change). Section 3031 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and will be adopted by the Company on January 1, 2008. The Company is evaluating the effects of adopting this standard.

(iv) Section 3064, *Goodwill and Intangible Assets*

In February 2008, the CICA issued new Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, Financial Statement Concepts. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards and US GAAP by eliminating the practice of recognizing as assets a variety of startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. The Company is currently evaluating the effects of adopting these changes.

CORPORATE INFORMATION

Directors and Officers

Jason DeZwirek
Chairman & Chief Executive Officer

Jonathan Graff
Director

Daniel Ambrose
Director

Bernard Kraft
Director

Michael Winton
Director

Craig Wallace
President & Chief Operating Officer

Jonathan Pollack
Chief Financial Officer & Corporate Secretary

Legal Counsel

WeirFoulds LLP

Auditors

Ernst & Young LLP

Transfer Agent

Equity Transfer Services Inc.

Stock Exchange Listing

The Toronto Stock Exchange (TSX)

Stock Symbol

KAB

Investor Relations

Investorrelations@kaboose.com

Head Office

505 University Avenue, Suite 1400
Toronto, ON M5G 1X3
Tel: 416-593-3000
Fax: 416-593-4658

www.kaboose.com

KABOOSE™

505 University Avenue, Suite 1400
Toronto, ON Canada M5G 1X3
416-593-3000
1-877-2-KABOOSE
www.kaboose.com
TSX:KAB