

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 was \$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 was 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 aquired 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 periods 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 acquisition 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 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 has 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 operate are highly competitive, and some of our 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 Kaboose's Database and Consumer Privacy

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

Acquisitions of Other Companies

The Corporation has acquired and in the future may seek to acquire, products or businesses that it believes are complementary to the Corporation'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 Corporation'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 Corporation. Furthermore, in paying for an acquisition, the Corporation may deplete its cash resources or dilute its shareholder base by issuing additional equity. There is also a risk that the Corporation'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 Corporation 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 Corporation's business could result in the unexpected loss of customers and revenue and have a material adverse effect on the Corporation'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 Parties 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 our 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 our 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.

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