Brian Tang, CFA
Analyst

Siddharth Rajeev, B.Tech, MBA
Analyst

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

June 8, 2007

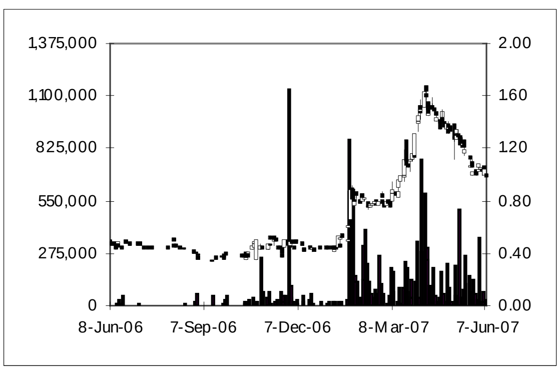
Stockgroup Information Systems Inc. (TSXV: SWEB; OTC: SWEB) – Q1-2007 performance weaker than expected; Growth Outlook Maintained for FY2007

Sector/Industry: Technology Services/Financial/Internet **www.stockgroup.com**

Market Data (as of June 8, 2007)

Current Price	C$1.00
Fair Value	C$1.75 (↓)
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C$0.34 -C$1.68
Shares O/S	40,535,197
Market Cap	C$40.54 mm
Current Yield	N/A
P/E	N/A
P/B (forward)	5.87
YoY Return	106.2%
YoY TSX-V	17.3%

*see back of report for rating and risk definitions



Q1-FY2007 Highlights

- Revenues were up 71.8% YOY in Q1-2007; however advertising revenues were lower than expected. Online advertising revenues in Canada grew by 80% YOY in 2006, but SWB's advertising revenues grew only 4.8% YOY. The increased traffic on the company's websites did not reflect in revenues. SWB is now focusing on methods to increase revenues per page.
- In May 2007, SWB announced that they completed the acquisition of the wireless financial information assets of Semotus Solutions, Inc (AMEX: DLK). It was the company's 2nd acquisition in the year.
- We expect 2007 to be an exciting year for the company as it starts generating revenues from StockStream Platinum, the next generation StockHouse and the 2 recently acquired wireless financial information providers. We are expecting significant revenue growth in FY2007.
- All margins dropped YOY in Q1-2007 due to higher costs relating to MFD acquisitions and increased staffing.
- In Q1-2007, the company had a net loss of $0.56 million (eps: -$0.015) versus $0.12 million (eps: -$0.003) in Q1 2006. We have reduced our revenue and eps forecasts for FY2007, and FY2008.

Key Financial Data (Financial Year-End Dec 31)

(US $)	2004	2005	2006	2007E	2008E
Revenues	4,823,227	6,099,528	7,766,128	15,852,337	19,348,039
EBITDA	392,132	215,688	(621,692)	(1,109,664)	580,441
EBITDA Margin	8.1%	3.5%	-8.0%	-7.0%	3.0%
Net Income	15,623	(58,590)	(791,197)	(1,787,598)	139,499
EPS (Basic)	0.000	(0.002)	(0.023)	(0.043)	0.003
Assets	2,841,720	3,289,924	3,460,252	10,424,729	11,297,933
Debt to Capital	0.0%	8.7%	15.1%	3.6%	0.0%
Free Cash Flow to Equity	416,862	388,873	(445,306)	(541,419)	731,153
ROE	1.0%	-4.0%	-61.6%	-29.8%	2.1%

Stockgroup Information Systems Inc. (SWEB) is a provider of financial information, news, and analytical tools to financial services firms, corporations, and the media. It also provides investors with financial information through leading financial sites such as StockHouse.ca and Smallcapcentre.com.

Recent Developments at SWB

SWB acquires another wireless financial data provider: In May 2007, SWB announced that they completed the acquisition of the wireless financial information assets of Semotus Solutions Inc (AMEX: DLK). It was the company's 2nd acquisition in the year. SWB had completed a major acquisition in early 2007, by acquiring the Mobile Finance Division (MFD) of TeleCommunication Systems Inc. (NASDAQ: TSYS). The acquisitions allow SWB to enter the wireless financial information market faster, and with lower development costs. SWB now has technology for both professional and retail priced wireless product offerings. The wireless products will also increase web-traffic. At a time when internet browsing through wireless devices, and the adoption of mobile devices is rising at a fast pace, we believe the acquisitions were well timed by SWB.

Semotus provides software solutions for enterprise mobility over vertical markets of workforce automation, finance, healthcare and mobile-commerce. It has a broad customer base of more than 600 organizations including major firms like AOL Time Warner, Alcatel, JP Morgan Chase and Coca-Cola. The company has been providing wireless financial information since 1993. Semotus decided to sell its financial wireless assets to concentrate more on its core enterprise product, HiplinkXS (a wireless notification engine that can add power to any enterprise application), and due to a pending merger with CityTalk Inc. (an emerging player in the cellular market). One noteworthy feature of Semotus's products is their polling wireless service, which is beneficial for consumers who do not subscribe to unlimited data plans from their wireless provider. The cost advantage for SWB is that the polling service uses less bandwidth. SWB will pay $0.35 million (initial payment of $0.15 million, and an additional amount of 30% of revenues not exceeding $0.20 million based on certain conditions being met over the next 2 years) for the acquisition. **The large potential client base and the intellectual property of Semotus were the main drivers of the acquisition.** Although this acquisition is not a major one in terms of revenues, we believe that, through Semotus's intellectual property, SWB can develop significant synergies between the two recently acquired financial data providers.

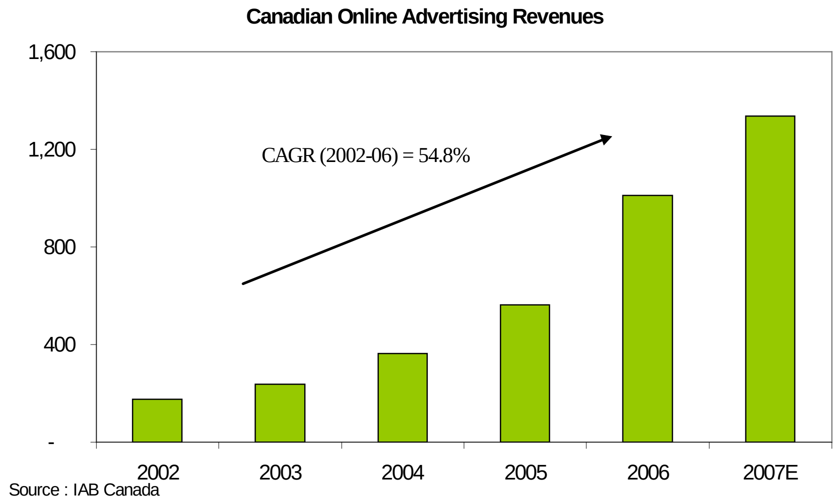
Mobile Finance Division: SWB generated about $1.05 million from MFD during the last two months of Q1-2007. MFD's flagship product, MarketStream™, has distribution agreements with Reuters (LSE: RTR.L), one of the world's largest financial information providers, and Hutchison (NYSE: HTX), a global 3G telecommunications provider, for their customers in Australia. Reuters is expected to launch its Reuters® Connect (wireless product offering) shortly, and we believe it can be a very significant channel partner for SWB's MarketStream™.

Agreement with CanWest, Canada's largest media company: In March 2007, SWB announced an alliance with CanWest (TSX: CGS) MediaWorks Inc., to develop a unique online financial resource for customers of the Financial Post (CanWest's leading business and financial news source). SWB expects to significantly improve the Financial Post website by introducing an improved portfolio manager, user-defined e-mail alerts, handy calculators, and a customized platform for news, quotes, charts, mutual funds, etc. We see this alliance as a very good development for SWB's market positioning.

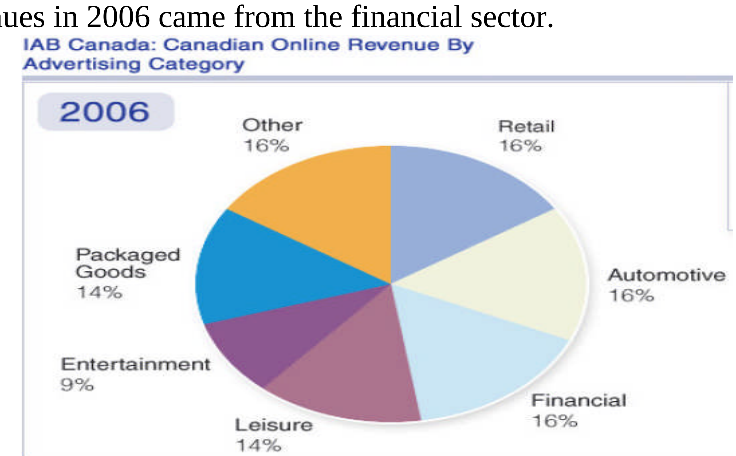
Industry Developments

One of SWB's major sources of revenues is online advertising. In FY2006, advertising revenues represented about 54.5% of SWB's total revenues. Online advertising revenues in Canada have grown considerably since the beginning of the century. Our outlook for SWB's advertising revenues going forward is positive; supported by the industry statistics presented in the next section.

Online advertising revenues grew by 80% YOY in 2006: Canadian online advertising revenues increased by 80% YOY to $1.01 billion in 2006, according to the Interactive Advertising Bureau of Canada (IAB). During 2002-06, online revenues grew at a compounded annual growth rate (CAGR) of 54.8%. The IAB expects revenues to increase to $1.34 billion in 2007, up 32% YOY (shown in the chart below).



According to Statistics Canada, **online sales recorded their 5th straight year of double-digit growth**, and were worth $49.9 billion in 2006. Online sales in 2006 were up by 40% YOY. According to Ipsos-Reid, the number of Canadians buying goods online has increased from 34% in 2004, to 45% in 2006. The chart below shows that 16% (about $8 billion) of total online revenues in 2006 came from the financial sector.



Market place for advertising could increase revenues: Yahoo Inc. (NASDAQ: YHOO) recently acquired 20% of Right Media Inc., which will allow Yahoo to create an open marketplace for online advertising. Right Media is the largest online advertising exchange where buyers and sellers can buy or sell advertisements. We believe that increased traffic on the advertising exchange will lead to an increase in overall online advertising revenues.

Consolidation in the Media Industry: Toronto based media company Thomson Corp. (TSE: TOC), as a move to expand its financial news service, has decided to takeover Reuters Group PLC, world's largest international multimedia news agency (90% of their revenues come from financial services) for $17.2 billion. We believe consolidation in the media industry could make relatively smaller financial information providers like SWB attractive takeover candidates.

Performance of SWB's Websites

Reach dropped, but page views increased considerably: The tables below show the performance of SWB's websites compared to other U.S. and Canadian financial websites over the year.

Stockhouse and SmallCapCenter Rank Among Other U.S. Financial Sites

	March 31, 2006			May 14, 2007		
Company	**Traffic Rank**	**Reach**	**Page Views**	**Traffic Rank**	**Reach**	**Page Views**
Yahoo Finance	1	278,650	17.6	1	253,150	14.2
MarketWatch	263	3,110	4.1	893	1,025	4.1
TheStreet.com	612	1,645	3.4	1,725	620	3.3
Stockhouse	10,399	91	7.1	11,101	64	10.1
Smallcapcenter	61,655	20.5	4.2	211,833	2	23
Factset	176,836	7.85	3.1	360,316	4	1.4
Edgaronline	880,168	0.95	2.2	617,517	1	18.5
StockConsult	822,013	1.0	2.9	n.a	n.a	n.a

Stockhouse Rank Among Canadian Financial Sites

	March 31, 2006			May 14, 2007		
Company	**Traffic Rank**	**Reach**	**Page Views**	**Traffic Rank**	**Reach**	**Page Views**
Stockhouse	3,883	147.5	15.6	8,269	78	13.6
GlobelInvestor	4,760	208.5	5.1	18,455	80	2.6
QuoteMedia	24,194	65.5	2.6	n.a	n.a	n.a
Moneysense	33,906	43.5	3.4	1,482,116	0.5	1.0

Although ranking (combined measure of page views and users) and reach (visitors per million users) dropped YOY, SWB's U.S. websites (StockHouse.com and SmallCapCenter) improved their page views considerably YOY (number of unique pages viewed per user per day for this site). Page views for Stockhouse.com and SmallCapCenter.com were 10.1 and 23, respectively, versus 14.2 for Yahoo Finance. The fact that users visiting the websites browse through a greater number of pages reflects the increased attractiveness of the site. Page views for Stockhouse.ca dropped slightly. SWB is no exception with regards to reach, as the reach of all the other websites (even Yahoo Finance) also fell YOY.

Review of Q1-2007 Results

Revenues up by 71.8% YOY; however advertising revenues were lower than expected: Revenues in Q1-2007 increased by 71.8% YOY, from $1.80 million in Q1-2006, to $3.10 million in Q1-2007. The significant increase in revenues came primarily from the recently acquired MFD. Since the acquisition was completed at the end of January 2007, Q1-2007 revenues include only the last 2 months of MFD's revenues. Revenues in Q1-2007 from MFD were $1.05 million (slightly higher than our expectations). The table below shows the revenue distribution in Q1-2007 compared to Q1-2006.

(in US$ 1000's)	Q1 2006	% Total	Q1 2007	% Total	Growth
Advertising	883	48.9%	925	29.8%	4.8%
L & S	921	51.1%	2,175	70.2%	136.2%
Total	1,804	100.0%	3,100	100.0%	71.8%

Revenues from Licensing and Subscriptions (L&S) represented 70.2% of total revenues in Q1-2007 versus 51.1% in Q1-2006. The increase was primarily due to the additional revenues from MFD.

Licensing and Subscription Revenues: As shown in the table above, growth in revenues in Q1-2007 came primarily from L & S. Revenues from L & S increased by 136.2% YOY, from $0.92 million in Q1-2006, to $2.18 million in Q1-2007. L & S revenues, excluding MFD's revenues, increased by 22% YOY.

SWEB released their latest version of StockStream (first version was launched in October 2005) called StockStream Platinum in November 2006. StockStream is a real-time, streaming portfolio manager designed for investment firms and banks. According to SWEB, StockStream Platinum™ is the first to market in the Web 2.0 collaborative area. The product will allow brokers and their clients to co-browse, receive custom alerts, and access real-time information, in addition to offering business intelligence (BI) tools. As only pilot versions were distributed in Q1-2007, revenues in the latest quarter do not reflect any sales revenues from StockStream Platinum. We expect revenues from StockStream Platinum to begin having an effect on Q2-2007 financials.

Advertising Revenues: The growth in advertising revenues was much lower than expected, considering that the online advertising industry has been experiencing significant growth. The company's advertising revenues (which had contributed 54.5% of total revenues in FY2006) grew by only 4.8% YOY, from $0.88 million in Q1-2006, to $0.93 million in Q1-2007. Although Q1 is normally the weakest quarter in terms of advertising revenues (due to decreased activities in the financial market), the slow growth in revenues concerns us. However, based on favorable industry conditions, we expect advertising revenues to pick up in Q2-2007.

Recently, ComScore Media ranked StockHouse.ca the #1 website in pages per visitor in Canada, based on average minutes per visitor in the business/finance - news and research category. According to ComScore, StockHouse visitors, age 35 and over, spend about 5 times more minutes on Stockhouse.ca than on Yahoo Finance Canada, Sympatico MSN Finance and the Globe Finance (Globe and Mail). **However, the increase in traffic was not reflected in Q1-2007 advertising revenues. In order to capitalize on the increased traffic, the company is now focusing on methods to increase revenues per page on their websites.**

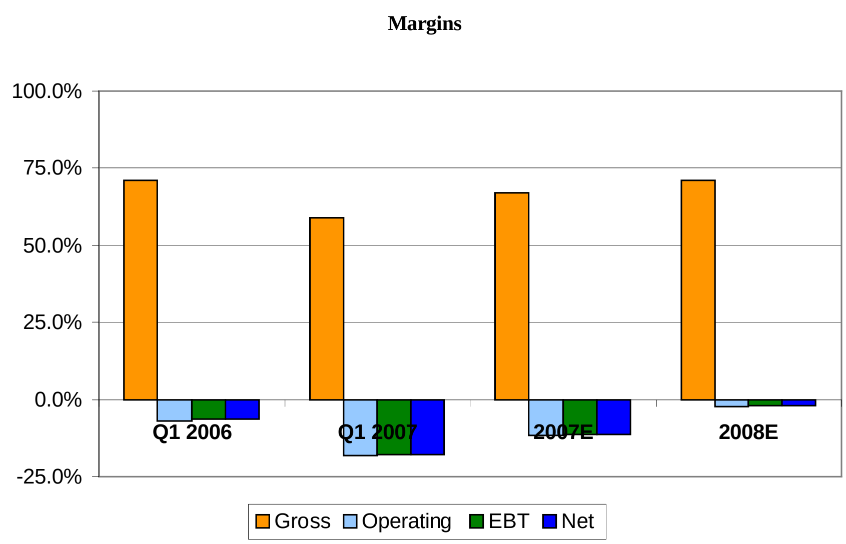
SWEB is currently working on their next version of StockHouse that is due to be released by late Q3-2007. The new version is expected to change significantly from the current version, including a significant array of collaborative features and improved filtration to provide better quality content. We believe that the Web 2.0 collaborative features will significantly increase web traffic by making content more useful and engaging for contributors.

Deferred revenues at the end of Q1-2007 were $1.18 million, up 46% from FYE2006 levels. Most of the deferred revenues comprised of licensing and subscription revenues.

As a result of the MFD acquisition, the company has started generating revenues in Europe. About 16% of MFD's revenues in Q1-2007 came from Europe. As a result, we believe the company will be exposed to higher exchange rate fluctuations going forward. Since the Euro is expected to stay strong against the U.S. dollar for the rest of the year (compared to 2006 levels), we expect the company to have positive translational effects.

Revenue Forecasts: We have slightly lowered our revenue forecasts to reflect the slower than expected growth in advertising revenues. Our revised revenues forecasts for FY2007 and FY2008 are $15.85 million and $19.35 million, respectively, compared to our previous forecasts of $16.10 million and $19.72 million.

All margins dropped YOY due to higher costs relating to MFD acquisitions and increased staffing: The table below shows the company's margins in Q1-2007 and Q1-2006, along with our forecasts.



Except for sales and marketing expenses, all other costs increased as a percentage of sales. Gross margins in Q1-2007 were only 59% (annual forecast – 71%) versus 71.2% in the comparable period. Gross margins declined primarily due to a significant increase in costs relating to data feeds and airtime associated with the acquisition of MFD. As a result of the increased traffic, the company also incurred higher costs to increase bandwidth. Also, the company used 3 primary data sources in Q1-2007, versus only 1 in the comparable period, which also resulted in higher costs. The company is looking to eliminate 1 of the data sources. Since there are overlaps between the data sources, we do not believe that the elimination of one of the data sources will affect the content of SWB's product offerings.

The increase in costs has led us to reduce our gross margin forecast for 2007 from 71% to 67%.

The company also incurred higher than expected General & Administrative (G&A) and Research & Development (R&D) expenses (as shown in the table below)

	Q1 2006	Q1 2007	2007E	2008E
General and administrative/Sales	27.9%	32.7%	30.0%	27.0%
Sales and marketing/Sales	43.0%	35.3%	36.0%	35.0%
Research & Development / Sales	7.1%	9.2%	8.0%	6.0%

The primary reason for the increase in costs was an increase in staff in the Research & Development (R&D), Human Resource (HR), Sales and Marketing and Legal Divisions. G&A costs increased due to increased costs in the company's operations in Europe. The majority of the increase in costs was related to an increase in payroll and payment of consultants. R&D expenses as a percentage of sales increased YOY from 7.1% in Q1-2006, to 9.2% in Q1-2007. Selling and marketing expenses increased in dollar terms due to additional sales staff in the U.S and Europe (as a result of MFD), but declined as a percentage of sales. We are not expecting a significant addition to staff for the rest of the year, and hence, we do not expect G&A and R&D expenses as a percentage of sales to go higher than current levels.

SWB started **converting their back-end infrastructure to .NET architecture** in Q4-2006. The company expects to complete the process by the end of FY2007. We believe the transition can bring cost benefits to the company, as a .NET architecture will increase scalability and reliability, in addition to reducing development time.

We have increased our G&A and R&D cost forecast for 2007, but maintain our 2008 estimates as we believe that costs as a percentage of sales will drop from 2007 levels as revenues increase.

Net Loss: In Q1-2007, the company had a net loss of $0.56 million (eps: -$0.015) versus $0.12 million (eps: -$0.003) in Q1 2006. Although revenues rose by 71.8%, net losses were higher in Q1-2007 due to higher costs. We have revised our eps forecasts downward for FY2007, and FY2008, based on the slight decrease in revenues and increase in costs forecasts. Our revised forecasts are a net loss of $1.79 million (eps: -$0.043) in FY2007, and net profit of $0.15 million (eps: $0.00) in FY2008. Our previous forecasts were a net loss of $0.13 million (eps: -$0.003) in FY2007, and net profit of $0.38 million (eps: $0.01) in FY2008.

Cash Flows: The company spent $0.42 million in operating activities in Q1-2007. The company also spent $0.16 million in capital expenditures in Q1-2007, relating to the purchase of computer equipment and the acquisition of MFD. SWB generated $38,000 from the exercise of stock options, but repaid $39,000 on capital lease obligations. All were primarily funded from working capital. SWB raised $0.70 million in Q1-2007 from working capital versus $0.11 million in the comparable period. SWB generated more cash than normal from operations primarily due to increased collections of receivables and delayed payment of payables. However, the acquisition of MFD has resulted in a substantial increase in the company's days sales outstanding (DSO) and days payables outstanding (DPO). SWB is focusing on reducing receivables to historical levels.

Recent Financings: In May 2007, SWB raised $4.5 million (C$5 million) through a brokered private placement, by issuing 3.33 million common shares at $1.34 per share (C$ 1.50 per share).

Cash and liquidity position: Cash and working capital at the end of Q1-2007 was $2.13 million and ($0.84 million), compared to $1.91 million and ($0.41 million) at the end of FY2006. The current ratio at the end of Q1-2007 was 0.8, compared to 0.9 at the end of Q1-2006. After the financing, we believe the company is in a sound cash and liquidity position.

	2004A	2005A	2006A	Q1 2007	2007E	2008E
Working Capital	1,326,510	1,274,598	998,291	(836,000)	3,908,578	4,741,010
Current Ratio	2.08	1.76	1.50	0.84	1.90	2.01
Debt / Capital	0.0%	4.2%	6.6%	3.9%	2.1%	0.0%
Interest Coverage Ratio (EBIT)	(21.21)	(0.49)	(0.05)	(0.01)	(0.04)	(5.39)

Valuation

DCF Valuation: Our revised DCF on SWB is $1.58 per share, down from our previous valuation of $1.70 per share.

DCF Valuation Model (in US $)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	Terminal
FFO	**(865,876)**	**947,376**	**1,903,248**	**4,052,278**	**5,319,358**	**6,485,232**	**6,034,199**	**7,187,914**	**8,100,927**	**8,679,337**
-increase in w/c	1,303,974	126,607	412,879	537,253	979,535	848,931	356,551	300,080	345,013	304,761
=CFO	**438,098**	**1,073,984**	**2,316,127**	**4,589,532**	**6,298,893**	**7,334,162**	**6,390,749**	**7,487,994**	**8,445,940**	**8,984,099**
-capex	(979,517)	(342,831)	(282,836)	(304,048)	(326,852)	(351,366)	(377,718)	(406,047)	(436,501)	(813,346)
- net debt repayment	(1,335)	(226,250)	-	-	-	-	-	-	-	-
=FCFE	**(542,754)**	**504,903**	**2,033,291**	**4,285,483**	**5,972,041**	**6,982,796**	**6,013,031**	**7,081,947**	**8,009,439**	**8,170,753**
PV	**(498,528)**	**414,072**	**1,488,847**	**2,801,768**	**3,486,079**	**3,639,366**	**2,798,155**	**2,942,476**	**2,971,286**	**33,679,207**

Discount Rate	12.00%
Terminal Growth	3.00%
Shares O/S	40,535,197
Sum PV	53,722,728
Cash	2,130,000
PV Equity	55,852,728
Value Per Share (in US$)	$1.38
Value Per Share (in C$)	$1.58

The DCF valuation declined primarily due to stock dilution (due to the recent US$4.5 million financing at US$1.34 per share) and increase in our short-term cost forecasts.

Comparables Valuation: SWB continues to be undervalued compared to its peers. Our revised comparables valuation on SWB is $1.96 per share, down from the previous estimate of $2.21 per share.

Comparable Valuation (US$ MM)	**Market Cap**	**Sales**	**Market Cap/Sales**
FactSet Research Systems (FDS)	2,945	471	6.3
TheStreet.com(TSCM)	324	61	5.3
Financialcontent Inc. (FCON)	6	2	3.3
Stockgroup (SWEB)	35	14	2.6
Average			4.4
Implied Value (in C$)			**$1.96**

Note: For Factset and TheStreet.com we use average expected forecasted sales in FY2007, according to Reuters. For Financialcontent Inc. sales represent their FY2006 sales.

Valuation declined due to stock dilution and as the average ratio of market capitalization to sales dropped from 4.5 to 4.4

Rating

Based on our valuation models and review of the company's latest results, we reiterate our BUY rating, but reduce our fair value estimate from $1.90 per share to $1.75 per share on SWB. Our revised fair value estimate reflects a 75% upside potential from the current stock price.

Risks

Stock market volatility affects SWEB's revenue streams: SWEB's sales are tied to public interest in stock markets. The financial software and content systems business is driven by demand for market information from customers. The number of hits on the StockHouse website is directly linked with the fortunes of the stock market.

Threats from bigger players to replicate their business model: SWEB faces a threat from bigger players, which may replicate its business model. Since online content providers thrive on innovation, SWEB could lose its edge once bigger players release similar models into the market.

Volatile Trading: As a small cap stock, investors may face liquidity problems.

Appendix

CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 31

(expressed in US dollars)	2004A	2005A	2006A	2007F	2008F
REVENUE					
Revenues	4,823,227	6,099,528	7,766,128	15,852,337	19,348,039
Cost of revenues	910,949	1,459,319	2,258,970	5,231,271	5,610,931
Gross profit	**3,912,278**	**4,640,209**	**5,507,158**	**10,621,066**	**13,737,107**
Gross Margins					
EXPENSES					
Sales and Marketing	1,515,280	2,111,451	3,041,307	5,706,841	6,771,814
Product development	0	324,646	683,776	1,268,187	1,160,882
General and Administrative	2,004,866	1,988,424	2,403,767	4,755,701	5,223,970
Total Expenses	3,520,146	4,424,521	6,128,850	11,730,730	13,156,666
EBITDA	**392,132**	**215,688**	**(621,692)**	**(1,109,664)**	**580,441**
Depreciation	393,168	274,601	217,102	750,318	615,639
EBIT	**(1,036)**	**(58,913)**	**(838,794)**	**(1,859,981)**	**(35,198)**
Interest income	24,058	36,347	65,584	60,392	174,696
Interest expense	(2,083)	(7,366)	(22,452)	11,991	-
Other income (expense)	(5,316)	(1,192)	8,455	-	-
Profit before effect of change in accounting principle	15,623	(31,124)	(787,207)	(1,787,598)	139,499
EBT	**15,623**	**(31,124)**	**(787,207)**	**(1,787,598)**	**139,499**
Taxes	0	(27,466)	(3,990)	-	-
Net Income	**15,623**	**(58,590)**	**(791,197)**	**(1,787,598)**	**139,499**
Basic and diluted earnings (loss) per share	0.000	(0.002)	(0.023)	(0.043)	0.003

CONSOLIDATED BALANCE SHEET As at December 31 (expressed in US dollars)	2004A	2005A	2006A	2007F	2008F
ASSETS					
Current					
Cash and cash equivalents	1,837,012	2,056,761	2,013,075	5,823,207	6,540,995
Net accounts receivable	595,848	760,294	814,047	1,585,234	1,934,804
Prepaid expenses & Marketable Securities	121,787	134,183	185,719	356,678	435,331
Total current assets	**2,554,647**	**2,951,238**	**3,012,841**	**7,765,118**	**8,911,130**
MFD Acquisition				1,514,800	1,406,600
Prepaid and other long-term assets				360,000	360,000
Property and equipment, net	287,073	338,686	447,411	784,811	620,203
Total Assets	**2,841,720**	**3,289,924**	**3,460,252**	**10,424,729**	**11,297,933**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities	319,846	798,618	898,338	2,124,850	2,279,061
Accrued compensation	104,230	157,570	175,559	340,944	374,515
Deferred revenue	804,061	656,805	810,273	1,664,495	2,031,544
Current portion of capital lease obligation	-	63,647	130,380	226,250	-
Total current liabilities	**1,228,137**	**1,676,640**	**2,014,550**	**4,356,540**	**4,685,120**
Capital lease obligation	-	75,233	97,205	-	-
Long-term deferred revenues		89,113	64,936	64,936	64,936
Total liabilities	**1,228,137**	**1,840,986**	**2,176,691**	**4,421,476**	**4,750,056**
Shareholders' equity (deficiency)					
Common stock, no par value					
Authorized shares - 75,000,000					
Issued and outstanding shares	13,568,499	13,359,341	13,793,188	20,129,074	20,341,960
Additional paid-in capital	3,099,314	3,202,417	3,394,390	3,565,794	3,758,033
Accumulated Profit (Deficit)	(15,054,230)	(15,112,820)	(15,904,017)	(17,691,615)	(17,552,116)
Total shareholders' equity (deficiency)	**1,613,583**	**1,448,938**	**1,283,561**	**6,003,253**	**6,547,876**
Total Liabilities and Shareholder's equity	**2,841,720**	**3,289,924**	**3,460,252**	**10,424,729**	**11,297,933**

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended December 31 (expressed in US dollars)	2004A	2005A	2006A	2007F	2008F
OPERATING ACTIVITIES					
Net income (loss)	**15,623**	**(58,590)**	**(791,197)**	**(1,787,598)**	**139,499**
Add (deduct) non-cash items					
Amortization	393,168	274,600	217,102	750,318	615,639
Stock based compensation	0	41,977	120,957	171,404	192,239
Funds from Operations	**471,119**	**270,113**	**(453,138)**	**(865,876)**	**947,376**
Net change in operating assets and liabilities	85,980	297,127	163,566	1,303,974	126,607
Cash provide by (used in) operating activities	**494,771**	**555,114**	**(289,572)**	**438,098**	**1,073,984**
FINANCING ACTIVITIES					
Net proceeds from issuance of common stock	-	-	342,602	4,500,000	-
Proceeds on exercise of warrants	-	41,920		-	-
Proceeds on exercise of stock options	58,875	24,538	189,594	212,886	212,886
Repayment of capital lease obligation	(38,920)	(21,092)	(103,243)	(1,335)	(226,250)
Share Buyback	-	(214,490)	(27,333)	-	-
Cash provided by financing activities	**19,955**	**(169,124)**	**401,620**	**4,711,551**	**(13,364)**
INVESTING ACTIVITIES					
Purchase of property and equipment	(77,909)	(166,241)	(155,734)	(979,517)	(342,831)
Acquisition of MFD				(360,000)	
Proceeds on disposition of property and equipment	-	-		-	-
Cash used in investing activities	**(77,909)**	**(166,241)**	**(155,734)**	**(1,339,517)**	**(342,831)**
Increase in cash and cash equivalents	436,817	219,749	(43,686)	3,810,132	717,789
Cash and cash equivalents, beginning of year	1,400,195	1,837,012	2,056,761	2,013,075	5,823,207
Cash and cash equivalents, end of year	**1,837,012**	**2,056,761**	**2,013,075**	**5,823,207**	**6,540,995**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. No fee has been paid by SWEB to FRC for coverage. In return for coverage, SWEB has granted FRC access to certain SWEB distribution channels. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, SWEB has agreed to a minimum coverage term including 8 reports. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (87%), HOLD (7%), SELL (4%), SUSPEND (4%). To subscribe for real-time access to research, visit http://www.fundamentalresearchcorp.com/subscribe.php for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.
Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.