



# **Shareholders' Quarterly Report**

**For the three months ending March 31, 2007**

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**Corporate Information**

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**with over 30 offices in Canada and the United States**

## **Report to Our Shareholders for the First Quarter Ended March 31, 2007**

For the first quarter ended March 31, 2007 the Company produced net earnings before taxes of \$332 thousand on revenues of \$28,146 thousand as compared to net earnings before taxes of \$375 thousand on revenues of \$31,227 thousand for the same quarter a year earlier. EBITDA was \$1,495 thousand for the first quarter 2007 compared to \$1,611 thousand for the first quarter 2006. The first quarter 2007 net earnings and EBITDA are consistent with projections.

Although there was a revenue decline between first quarter 2007 and first quarter 2006, the Company was able to maintain profit margins due to cost reductions made in proportion to the decline in revenues.

The Company continues to experience resistance in the form of consumer attitude in both Canada and the US, although slight improvement in the US fulfillment rates is being realized. Consumer attitude is the major contributor to revenue decreases during the first quarter 2007. Management is restructuring call centre management personnel, redistributing workloads between call centres, improving database management techniques and expanding and freshening the database in an effort to recapture revenue.

The Company has significantly reduced branch overhead and corporate administration costs which has contributed to maintaining operational efficiencies and profitability.

The implementation of the Canadian Do Not Call legislation is being monitored and Company management is participating in the process. The current timetable is such that no impact is expected until late 2008.



Michael P. Platz  
Chairman, President and CEO  
Toronto, Ontario

May 29, 2007

**Xentel DM Incorporated**  
**For the three months ended March 31, 2007**  
**Management Discussion and Analysis**  
**(tabular amounts in \$ '000s CAD, except percentages and per share data)**

The following Management Discussion and Analysis of the financial condition and results of operations and cash flows for Xentel DM Incorporated for the three months ended March 31, 2007 and 2006 should be read in conjunction with the audited Consolidated Financial statements and the related Notes to the Consolidated Financial Statements contained in this interim report and the Management Discussion and Analysis of March 31, 2007 of the financials condition and results of operations and cash flow and the audited Consolidated Financial Statements together with the related notes to the Consolidated Financials Statements contained in the Company's 2006 Annual Report.

Certain statements in this report may constitute "forward looking statements" and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any performance or achievement expressed or implied by such "forward looking statements". These "forward looking statements" reflect management's current beliefs and are based on information available to management as of the date of this report. Outlined below under the heading Business Risks are some of the key factors that could cause results to differ materially from the results outlined in the "forward looking statements".

Except as otherwise noted, the accompanying financial statements are prepared in accordance with Canadian GAAP in Canadian dollars. Neither Gross Margin nor Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) are standardized GAAP meanings and, therefore, the comparison of these amounts to other enterprises may not be possible if the basis of calculation differs.

Gross margin and gross margin percentage of revenues may vary between enterprises depending on the expense categories included in Cost of revenue versus Branch overhead and corporate administration but as applied consistently between the periods under consideration provides a comparison between those periods of the Company's operations.

EBITDA is a financial metric used by many investors and lenders to compare companies and to evaluate the Company's ability to repay debt since this measure excludes from operating results interest, taxes and amortization. The Company has excluded the legal expenses incurred in connection with the 2003 privatization lawsuit from the calculation of EBITDA.

**Change in Accounting Policy**

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) handbook recommendations relating to Comprehensive Income (Section 1530), Financial Instruments –Recognition and Management (Section 3855) and Hedges (Section 3865). These standards were adopted prospectively and comparative amounts have not been restated, except for unrealized foreign currency translation gains and losses in self sustaining foreign investments, which is in accordance with the pronouncements. These new standards require that all financial assets and

liabilities are recorded at fair value, except loans and receivables and certain other instruments held to maturity. Loans, receivables and other instruments held to maturity are measured at amortized cost. For instruments measured at fair value, unrealized changes in fair value are recognized in earnings, unless the instrument is an available for sale asset or is designated as an effective cash flow hedging instrument, in which case the unrealized changes are recorded in Other comprehensive income. Also, the new standards require the Company to present Consolidated Statements of Comprehensive Income which consists of earnings, the effective portion of changes in unrealized gains and losses related to cash flow hedges, unrealized gains and losses of available for sale assets and unrealized foreign exchange gains and losses related to self sustaining foreign investments.

The only effect on these financial statements associated with the above noted changes in accounting policy relate to unrealized foreign currency translation gains and losses in self sustaining foreign investments and the reclassification of deferred financing charges from other assets to long term debt. The Company holds no financial instruments that are “an available for sale” asset nor any effective cash flow hedging instruments.

### Gross Revenues

An analysis of gross revenues for the three months ended March 31 follows:

	<b>March 31</b>			<b>%</b>	<b>% Total</b>	<b>% Total</b>
	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>Change</b>	<b>2007</b>	<b>2006</b>
Canada	\$ 10,863	\$ 12,726	\$ (1,863)	(15)%	39%	41%
United States	17,293	18,505	(1,212)	(7)%	61%	59%
Total	\$ 28,156	\$ 31,231	\$ (3,075)	(10)%	100%	100%

The above analysis includes revenues from Canadian activities in support of United States business which have been eliminated on consolidation. Please refer to note 9 of the consolidated financial statements for details on these amounts.

In the first quarter of 2007, Canadian revenues decreased \$1,863 thousand or 15% from the first quarter of 2006. The revenue decline was caused by a combination of factors, as follows:

- in order to grow and freshen the Canadian transactional database, the calling pattern was shifted to additional new donor acquisition,
- lower fulfillment rates suggesting a moderate shift in consumer attitudes, and,
- in 2006, the Company was engaged in the offshore telemarketing program which affected the comparability of revenues by approximately \$200,000 to the downside.

For the first quarter 2007 compared to the first quarter 2006, the revenue decline in the US operations of \$1,212 thousand or 7% is the result of decline in actual US revenues. The impact from the foreign currency exchange rate fluctuations on converting the US dollar revenues into Canadian dollars was positive by \$296 thousand. The Company is

experiencing slightly improved fulfillment rates which was more than offset by increased consumer resistance.

In both Canada and the US, management is taking steps to mitigate these softening affects by restructuring management personnel, redistributing work loads, improving data management techniques and expanding and freshening the database.

### Cost of Revenue and Gross Margin

Since Gross Margin has no standardized GAAP meaning, the comparability of Gross Margin to other enterprises may not be possible if the basis of calculation of Gross Margin differs.

Gross margin and gross margin percentage of revenues may vary between enterprises depending on the expense categories included in Cost of revenue versus Branch overhead and corporate administration but as applied consistently between the periods under consideration these amounts provide a comparison between those periods of the Company's operations.

An analysis of cost of revenue for the three months ended March 31 follows:

	<b>March 31</b>		<b>% of</b>	<b>% of</b>
	<b>2007</b>	<b>2006</b>	<b>Revenues</b>	<b>Revenues</b>
			<b>2007</b>	<b>2006</b>
Canada	\$ 8,581	\$ 10,010	79%	79%
United States	13,106	13,344	76%	72%
<b>Total</b>	<b>\$ 21,687</b>	<b>\$ 23,354</b>	<b>77%</b>	<b>75%</b>

The above analysis includes direct costs from Canadian activities in support of United States business which have been eliminated on consolidation.

An analysis of the gross margin for the three months ended March 31 follows:

	<b>March 31</b>		<b>+/-</b>	<b>%</b>
	<b>2007</b>	<b>2006</b>		<b>Change</b>
<b>Canada</b>				
\$	\$ 2,282	\$ 2,716	\$ (434)	(16)%
% of Revenue	21%	21%	0%	
<b>United States</b>				
\$	\$ 4,187	\$ 5,161	\$ (974)	(19)%
% of Revenue	24%	28%	(4)%	
<b>Total</b>				
\$	\$ 6,469	\$ 7,877	\$ (1,408)	(18)%
% of Revenue	23%	25%	(2)%	

In Canada, the gross margin decreased by \$434 thousand or 16% in the first quarter 2007 over the first quarter 2006. While the gross margin % did not change, this was the result of offsetting factors:

- there was a softening of consumer acceptance affecting both pledges made and fulfillment rates, and,
- in the first quarter 2006, the offshore telemarketing program had a negative impact on gross margin that was not experienced in 2007.

In the US, the gross margin for the first quarter 2007 compared to the gross margin for the first quarter 2006 decreased by \$973 thousand or 19%. The Canadian/US dollar exchange rate had relatively little impact on the change in gross margin. The decline in gross margin was primarily attributable to a combination of offsetting factors:

- slight improvement in fulfillment rates, and,
- softening of consumer acceptance resulting in reduced productivity.

### Corporate expenses

An analysis of the corporate expenses for the three months ended March 31 follows:

<b>For the three months ended March 31</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>% change</b>
Branch overhead and corporate administration	\$ 4,974	\$ 6,266	\$ (1,292)	(21)%
Interest expense	239	255	(16)	(6)%
Amortization	831	978	(147)	(15)%
Total	\$ 6,044	\$ 7,499	\$ (1,455)	(19)%

Branch overhead and corporate administration expenses for the first quarter ended March 31, 2007 were 19% of revenues, and for the same period in 2006 were 20% of revenue. The expense reductions are reductions in variable costs associated with the decrease in revenue volume and the impact of on going cost control measures.

Overall interest expense has remained relatively constant between the first quarter ended March 31, 2007 and 2006. Included in interest expense for the first quarters is a charge for debt accretion of \$102 thousand for 2007 and \$28 thousand for 2006 respectively.

Amortization expense of equipment and other intangible assets continues to be approximately 3% of revenues, which has remained relatively constant in previous periods.

### Income taxes

The Company follows the liability method of accounting for income taxes as recommended by The Canadian Institute of Chartered Accountants whereby any difference between the accounting and income tax basis of an asset or liability is recorded as Future Income Taxes and the accumulated future income tax balances are adjusted to reflect substantially enacted income tax rates.

During the fiscal year 2007, the Company provided:

- a current income tax recovery of \$1 thousand being income taxes recoverable on the Canadian operation losses, and,
- a future income tax expense of \$216 thousand, being the income tax effect of timing differences between accounting and tax income of \$24 thousand on the Canadian operations and \$192 thousand on the US operations.

For the three months ended March 31, 2007, on earnings before income taxes of \$332 thousand, the income tax expense was \$215 thousand resulting in an effective income tax rate of 65%. The effective tax rate of 65% is abnormally high due to:

- the impact of expenses not deductible for income tax purposes, and,
- the interest expense relating to debt accretion which is non deductible for income tax purposes.

During the first quarter 2006, the Company provided:

- a future tax expense of \$270 thousand being the estimated income tax effect of non capital income tax losses from prior years applied to the current years taxes otherwise payable relating to the United States operations, and,
- a current income tax recovery of \$77 thousand on losses from the Canadian operations to be recovered from prior years taxes paid.

For the first quarter of 2006, on earnings before income taxes of \$375 thousand the income tax expense was \$193 thousand resulting in an effective income tax rate of 51%.

### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

EBITDA is a financial metric used by many investors and lenders to compare companies and to evaluate the Company's ability to repay debt since this measure excludes from operating results interest, taxes and amortization.

Since EBITDA has no standardized GAAP meaning, the comparability of EBITDA to other enterprises may not be possible if the basis of calculation of EBITDA differs.

EBITDA for the three months ended March 31, 2007 was \$1,495 thousand or \$0.06 per basic and diluted share compared to EBITDA for the same period in 2006 of \$1,611 thousand or \$0.06 per basic and diluted share. EBITDA as a % of revenues for the three months ended March 31, 2007 was 5% and for the same period in 2006 was 5%.

<b>For the three months ended March 31</b>	<b>2007</b>	<b>2006</b>
Net earnings for the period	\$ 117	\$ 182
Income tax expense	215	193
Amortization	831	978
Interest expense	239	255
Expenses relating to the 2003 privatization lawsuit	93	3
<b>EBITDA</b>	<b>\$ 1,495</b>	<b>\$ 1,611</b>
	=====	=====

## Net earnings

An analysis of net earnings for the three months ended March 31 follows:

<b>For the three months ended March 31</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>%</b>
Earnings before income taxes	\$ 332	\$ 375	\$ (43)	(11)%
Income tax expense				
• Current income tax expense (recovery)	(1)	(77)	(76)	(98)%
• Future income tax expense	216	270	54	20%
Income tax expense	215	193	(22)	(11)%
Net earnings	\$ 117	\$ 182	\$ (65)	(36)%
Basic and diluted net earnings per share	\$ 0.00	\$ 0.01	\$ (0.01)	(100)%

The major components of the decrease in earnings before taxes of \$43 thousand for the first quarter 2007 versus the first quarter 2006 are as follows:

• Decrease in gross margin	\$ (1,408)
• Decrease in branch overhead and corporate administration	1,293
	<hr/>
	\$ (115)
	=====

Geographical segmented information is presented in note 8 to the consolidated financial statements.

## Capital Resources and Liquidity

Since December 31, 2006, the Company has improved its working capital position by \$380 thousand from \$8,712 thousand at December 31, 2006 to \$9,092 thousand at March 31, 2007.

As at March 31, 2007, \$3,468 thousand of the working capital is from the Canadian operations and \$5,624 thousand is from the US operations.

Capital expenditures for the first quarter 2007 were \$128 thousand compared with \$452 thousand for the same period in 2006. Capital expenditures related mainly to the costs of opening new offices and refurbishment of existing equipment.

## Credit Facilities

At March 31, 2007 the Company is in compliance with its lending covenants and conditions.

## **Business Risks**

The Company's business risks have not changed since December 31, 2006 and as were reported on in the Company's 2006 Annual Report.

### Disclosure Controls Certification

The Company has disclosure controls and procedures to provide reasonable assurance that material information is made known to senior management and is included in the Company's annual filings. Management continues to monitor and update these processes as necessary. For the year to date ended March 31, 2007 a management evaluation of these procedures and controls has determined these controls are effective.

## **Contingencies**

### Schroder

The status of the litigation related to the aborted privatization transaction has not changed since it was reported on at December 31, 2006 except that the Company has filed additional motions which are to be heard in July 2007. A trial date cannot be set until those motions are resolved.

### Vendor dispute

The status of the vendor dispute has not changed since it was reported on at December 31, 2006.

## **Outlook**

The Company is currently experiencing more resistant consumer attitudes. There has been slight improvement in the US fulfillment rates, however there has been a decline in fulfillment rates in Canada. Management is taking steps to reverse this trend by reallocating work loads amongst offices, restructuring call centre management and improving the management and deployment of the transactional databases.

Reductions in cost of revenue and branch overhead and corporate administration expenses are being effected so as to maintain profitability. Maintaining operational efficiencies and profitability continues to be the keynote focus of management.

## Quarterly Review

The following is a tabular analysis of the financial results for the Company. All amounts are in \$ millions except for per share data.

	2007	FYE 2006					FYE 2005				
	1Q	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Revenue	28.1	31.2	27.5	26.6	28.3	113.6	33.1	32.3	29.6	29.9	124.9
Gross margin	6.5	7.9	6.5	6.5	6.7	27.6	9.0	8.0	7.7	6.3	31.0
Net earnings (loss) before taxes	0.3	0.4	(0.1)	0.4	(0.0)	0.7	1.5	0.7	0.3	0.9	3.4
Net earnings (loss)	0.1	0.2	(0.1)	0.3	(0.2)	0.2	1.0	0.3	0.2	0.0	1.5
EBITDA	1.5	1.6	1.3	1.7	1.2	5.8	2.8	2.1	1.4	(0.6)	5.7
Basic EPS	0.00	0.01	0.00	0.01	(0.01)	0.01	0.04	0.01	0.01	0.00	0.06
Diluted EPS	0.00	0.01	0.00	0.01	(0.01)	0.01	0.04	0.01	0.01	0.00	0.06
Diluted EBITDA per share	0.06	0.06	0.05	0.06	0.05	0.22	0.11	0.09	0.05	(0.02)	0.23

FYE	2006	2005	2004	2003	2002
Revenue	113.6	124.9	130.8	102.4	107.4
Gross margin	27.6	31.0	31.7	22.0	30.0
Net earnings (loss) before taxes	0.7	3.4	(4.4)	(4.5)	6.5
Net earnings (loss)	0.2	1.5	(2.8)	(2.9)	5.0
EBITDA	5.8	5.7	1.0	(0.7)	9.6
Basic EPS	0.01	0.06	(0.11)	(0.14)	0.26
Diluted EPS	0.01	0.06	(0.11)	(0.14)	0.24
Diluted EBITDA per share	0.22	0.23	0.04	(0.03)	0.45

Since EBITDA and diluted EBITDA per share and Gross Margin have no standardized GAAP meaning, the comparability of these amounts to other enterprises may not be possible if the basis of calculation differs. EBITDA for the purpose of this presentation is net earnings before interest, income taxes and amortization as presented in the Consolidated Financial Statements of the Company.

## Supplemental Financial Disclosure

<b><u>Balance Sheet as at March 31</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Current assets	\$ 18,499	\$ 18,629
Long term assets	10,052	15,044
Total assets	<u>\$ 28,551</u> =====	<u>\$ 33,673</u> =====
Current liabilities	\$ 9,407	\$ 11,710
Long term liabilities	5,624	8,444
Total liabilities	<u>15,031</u>	<u>20,154</u>
Shareholders' equity	13,520	13,519
Total liabilities and shareholders' equity	<u>\$ 28,551</u> =====	<u>\$ 33,673</u> =====

Toronto, Ontario, Canada  
May 29, 2007

## Management's Responsibility for Financial Statements

### To the Shareholders of Xentel DM Incorporated

The accompanying consolidated financial statements of Xentel DM Incorporated and its subsidiary companies (Company) and all information in the annual report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. Financial and operating data elsewhere in this quarterly report are consistent with the information contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. Members of the Audit Committee are independent non-management directors and all members of the Audit Committee are appointed by the Board of Directors. The Audit Committee meets with management and the external auditors to discuss the results of the annual audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the consolidated financial statements and financial reporting matters.

These first quarter 2007 financial statements for the three months ended March 31, 2007 and 2006, together with the related Management Discussion and Analysis have not been reviewed by the Company's external auditors, PricewaterhouseCoopers LLP.



Michael P. Platz  
Chairman, President and CEO



Peter R. Pielsticker, CA  
Vice President, Corporate Finance

Toronto, Canada  
May 29, 2007

**Xentel DM Incorporated**  
**Consolidated Balance Sheets**  
(\$ '000s)

	<b>March 31, 2007</b>	<b>March 31, 2006</b>	<b>December 31, 2006</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(audited)</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 161	\$ 325	\$ 795
Accounts receivable, net of allowances	8,288	9,117	8,956
Inventory	560	537	628
Work in process	6,416	6,888	6,421
Prepaid expenses	1,125	644	1,106
Due from related party	1,500	-	1,514
Future income taxes (note 4)	449	919	643
Other current assets	-	199	-
	<hr/>	<hr/>	<hr/>
	18,499	18,629	20,063
Deferred financing costs, net of amortization	-	336	210
Due from related party	-	1,518	-
Equipment (note 6)	3,337	4,107	3,622
Future income taxes (note 4)	2,793	3,397	2,843
Other intangible assets (note 7)	2,753	4,504	3,207
Goodwill (note 7)	1,169	1,182	1,180
	<hr/>	<hr/>	<hr/>
	\$ 28,551	\$ 33,673	\$ 31,125
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank indebtedness	\$ 535	\$ 1,781	\$ 1,259
Accounts payable and accrued liabilities	5,682	6,318	6,654
Income taxes payable	137	822	365
Current portion of long term liabilities (note 3)	2,037	1,954	2,058
Future income taxes (note 4)	1,016	835	1,016
	<hr/>	<hr/>	<hr/>
	9,407	11,710	11,352
Long term debt (note 2)	861	3,035	1,542
Due to related parties	2,785	2,447	2,729
Future income taxes (note 4)	1,614	2,962	1,628
Deferred tenant inducement	364	-	389
	<hr/>	<hr/>	<hr/>
	15,031	20,154	17,640
<b>Shareholders' equity</b>			
Share capital (note 5)	9,280	9,291	9,280
Warrants	205	205	205
Contributed surplus	70	58	70
Accumulated other comprehensive income	(3,079)	(2,984)	(2,997)
Retained earnings	7,044	6,949	6,927
	<hr/>	<hr/>	<hr/>
	13,520	13,519	13,485
	<hr/>	<hr/>	<hr/>
	\$ 28,551	\$ 33,673	\$ 31,125
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Contingencies (note 10)  
See accompanying notes to the financial statements

**Xentel DM Incorporated**  
**Consolidated Statements of Operations and Retained Earnings**  
**For the Three Months Ended March 31**  
('000s, except per share amount)

	<b>2007</b> <b>(unaudited)</b>	<b>2006</b> <b>(unaudited)</b>
<b>Revenue</b>	\$ 28,146	\$ 31,227
<b>Cost of revenue</b>	21,677	23,350
	<hr/>	<hr/>
<b>Gross margin</b>	6,469	7,877
	<hr/>	<hr/>
<b>Corporate expenses</b>		
Branch overhead and corporate administration	4,974	6,266
Interest expense	239	255
Amortization of equipment	399	551
Amortization of intangible assets	432	427
	<hr/>	<hr/>
	6,044	7,499
	<hr/>	<hr/>
<b>Earnings before undernoted items</b>	425	378
Expenses related to 2003 privatization lawsuit	93	3
	<hr/>	<hr/>
Earnings before income taxes	332	375
<b>Income tax expense (recovery)</b> (note 4)		
Current income tax (recovery)	(1)	(77)
Future income tax expense	216	270
	<hr/>	<hr/>
	215	193
	<hr/>	<hr/>
<b>Net earnings</b>	117	182
<b>Retained earnings, beginning of period</b>	6,927	6,767
	<hr/>	<hr/>
<b>Retained earnings, end of period</b>	\$ 7,044	\$ 6,949
	=====	=====
Basic and diluted net earnings per share (note 5)	\$ 0.00	\$ 0.01
	=====	=====
Basic and diluted weighted number of shares outstanding (note 5)	26,195	26,205
	=====	=====
See accompanying notes to the financial statements		

**Xentel DM Incorporated**  
**Consolidated Statements of Contributed Surplus**  
**For the Three Months Ended March 31**  
('000s)

	<b>2007</b> <b>(unaudited)</b>	<b>2006</b> <b>(unaudited)</b>
Balance at beginning of period	\$ 70	\$ 58
Balance at end of period	\$ <u>70</u> =====	\$ <u>58</u> =====

See accompanying notes to the financial statements

**Xentel DM Incorporated**  
**Consolidated Statements of Comprehensive Income**  
**For the Three Months Ended March 31**  
('000s)

	<b>2007</b> <b>(unaudited)</b>	<b>2006</b> <b>(unaudited)</b>
Net earnings for the period	\$ 117	\$ 182
Foreign currency translation adjustment from self sustaining foreign operations	(82)	11
Comprehensive income	\$ <u>35</u> =====	\$ <u>193</u> =====

See accompanying notes to the financial statements

**Xentel DM Incorporated**  
**Consolidated Statements of Accumulated Other Comprehensive Income**  
**For the Three Months Ended March 31**  
('000s)

	<b>2007</b> <b>(unaudited)</b>	<b>2006</b> <b>(unaudited)</b>
Transition adjustment – January 1, 2006	\$ -	\$ (2,995)
Foreign currency translation adjustment from self sustaining foreign operations	(82)	11-
	<u>(82)</u>	<u>(2,984)</u>
Balance at beginning of period	(2,997)	-
Balance at end of period	\$ <u>(3,079)</u> =====	\$ <u>(2,984)</u> =====

See accompanying notes to the financial statements

**Xentel DM Incorporated**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31**  
**('000s)**

	<b>2007</b> <b>(unaudited)</b>	<b>2006</b> <b>(unaudited)</b>
<b>Cash flows from (used in) operating activities</b>		
Net earnings for the period	\$ 117	\$ 182
<i>Non cash transactions reflected in net earnings</i>		
Amortization	831	978
Future income tax expense	216	270
Adjustment for non cash interest	102	28
	<u>1,266</u>	<u>1,458</u>
<i>Net change in non cash working capital items</i>		
Accounts receivable	634	201
Inventory and work in process	39	(684)
Prepaid expenses	(24)	(145)
Other current assets	(1)	(16)
Income and other taxes payable	(229)	(131)
Accounts payable and accrued liabilities	(951)	(566)
	<u>(532)</u>	<u>(1,341)</u>
Net change in non cash working capital items	(532)	(1,341)
	<u>734</u>	<u>117</u>
<b>Cash flows from (used in) financing activities</b>		
Bank indebtedness	(724)	461
Long term debt	(515)	(257)
	<u>(1,239)</u>	<u>204</u>
<b>Cash flow (used in) investing activities</b>		
Investment in capital assets	(128)	(452)
	<u>(128)</u>	<u>(452)</u>
<b>Effect of exchange rate fluctuations on cash balances</b>		
	(1)	4
Net (decrease) in cash and cash equivalents	(634)	(127)
<b>Cash and cash equivalents, beginning of period</b>	<u>795</u>	<u>452</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 161</u>	<u>\$ 325</u>
See accompanying notes to the financial statements		

**Xentel DM Incorporated**  
**Notes to Consolidated Financial Statements**  
**For the three months ended March 31, 2007 and 2006**  
**(Amounts in \$ '000s of dollars, except per share amounts)**

**Note 1**

*Accounting Policies*

The interim financial condition, results of operations and cash flows of Xentel DM Incorporated for the three months ended March 31, 2007 should be read in conjunction with the audited Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements and the Management Discussion and Analysis contained in the Company's 2006 Annual Report, dated April 20, 2007. These interim financial statements follow the same accounting policies and methods of their application as the audited Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements contained in the Company's 2006 Annual Report, dated April 20, 2007.

These interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements but they do comply with the interim financial statement reporting requirements of Section 1751 of the CICA Handbook.

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) handbook recommendations relating to Comprehensive Income (Section 1530), Financial Instruments – Recognition and Management (Section 3855) and Hedges (Section 3865). These standards were adopted prospectively and comparative amounts have not been restated, except for unrealized foreign currency translation gains and losses in self sustaining foreign investments, which is in accordance with the pronouncements. These new standards require that all financial assets and liabilities are recorded at fair value, except loans and receivables and certain other instruments held to maturity. Loans, receivables and other instruments held to maturity are measured at amortized cost. For instruments measured at fair value, unrealized changes in fair value are recognized in earnings, unless the instrument is an available for sale asset or is designated as an effective cash flow hedging instrument, in which case the unrealized changes are recorded in Other comprehensive income. Also, the new standards require the Company to present Consolidated Statements of Comprehensive Income which consists of earnings, the effective portion of changes in unrealized gains and losses related to cash flow hedges, unrealized gains and losses of available for sale assets and unrealized foreign exchange gains and losses related to self sustaining foreign investments.

The only effect on these financial statements associated with the above noted changes in accounting policy relate to unrealized foreign currency translation gains and losses in self sustaining foreign investments and the reclassification of deferred financing charges from other assets to long term debt. The Company holds no financial instruments that are “an available for sale” asset nor any effective cash flow hedging instruments.

## Note 2

### Long Term Debt

	March 31, 2007	December 31, 2006
<b>\$5,500,000 US Subordinated Term Loan</b> - bearing interest at LIBOR plus 8.5%, maturing October 2008, with monthly interest payments. Monthly principal repayments commenced February 2004 in the amount of \$96,500 US until maturity. On each anniversary date, up to 10% of the then outstanding balance may be prepaid without penalty; otherwise the prepayment penalty is 3% of the principal being repaid if the funds are from operating working capital or 6% if the funds are from any other source. This term loan is secured by a first ranking interest on the database and a second ranking interest on the remaining assets of the Company, ranking pari passu with the \$900,000 US subordinated term loan below.	\$ 2,056	\$ 2,413
<b>\$900,000 US Subordinated Term Loan</b> - bearing interest at LIBOR plus 10%, maturing October 2008, with monthly principal payments of \$25,000 US together with interest. On each anniversary date, up to 10% of the then outstanding balance may be prepaid without penalty; otherwise the prepayment penalty is 3% of the principal being repaid if the funds are from operating working capital or 6% if the funds are from any other source. This term loan is secured by a first ranking interest on the database and a second ranking interest on the remaining assets of the Company, ranking pari passu with the \$5,500,000 US subordinated term loan above.	581	671
<b>Various Capital leases</b> – due between December 2007 and October 2010 bearing interest at between 3.81% and 21.81% per annum	360	423
<b>Vehicle financing</b> – one vehicle repayable in monthly installments of \$880 at 9.35% interest, due December 2007. The obligation is secured by the vehicle.	7	10
<b>Deferred financing charges</b> related to subordinated debt	(189)	-
	<u>\$ 2,815</u>	<u>\$ 3,517</u>
Less portion included in current liabilities	(1,954)	(1,975)
	<u>\$ 861</u>	<u>\$ 1,542</u>
	=====	=====

The amortization of deferred financing costs charged to interest expense for the three months ended March 31, 2007 was \$19 thousand.

### Note 3

#### Current portion of long term liabilities

The amount shown as current portion of long term liabilities includes the following:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Current portion of long term debt	\$ 1,954	\$ 1,975
Current portion of deferred tenant inducement	83	83
Total current portion of long term liabilities	<u>\$ 2,037</u> =====	<u>\$ 2,058</u> =====

### Note 4

#### Income Taxes

The following is a reconciliation of income taxes calculated at statutory rates to the actual income taxes expensed in the accounts:

	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Income taxes at a combined Federal and Provincial rate of 36%	\$ 120	\$ 135
Effect on income taxes resulting from:		
• permanent differences, net	42	21
• difference between Canada and US income tax rates	19	35
• other	34	2
Income tax expense	<u>\$ 215</u> =====	<u>\$ 193</u> =====

At March 31, 2007 and December 31, 2006, future income taxes are comprised of:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>Future income tax asset – current</b>		
Income taxes on expenses deferred for income tax purposes	\$ 449	643
	_____	_____
Future income tax asset – current	\$ 449	\$ 643
	=====	=====
<b>Future income tax asset – long term</b>		
Income taxes on expenses deferred for income tax purposes	\$ 2,759	\$ 2,809
Income taxes on capital income tax losses carried forward	34	34
	_____	_____
Future income tax assets – long term	\$ 2,793	\$ 2,843
	=====	=====
<b>Future income tax liability – current</b>		
Income taxes on deferred revenue for income tax purposes	\$ 1,016	\$ 1,016
	_____	_____
Future income tax liability – current	\$ 1,016	\$ 1,016
	=====	=====
<b>Future income tax liability – long term</b>		
Income taxes on assets in excess of income tax values	\$ 1,614	\$ 1,628
	_____	_____
	\$ 1,614	\$ 1,628
	=====	=====

## **Note 5**

### Share Capital

#### **Authorized**

Unlimited number of:

Class A common voting shares

Class B non voting convertible preferred shares – none issued or outstanding

**Issued**

	<b>March 31, 2007</b>		<b>December 31, 2006</b>	
	<b># of shares</b>	<b>\$</b>	<b># of shares</b>	<b>\$</b>
Opening balance	26,195	\$ 9,280	26,205	\$ 9,291
Cancellation of warrants/options	-	-	-	3
Cancellation of shares	-	-	(10)	(14)
Closing balance	<u>26,195</u>	<u>\$ 9,280</u>	<u>26,195</u>	<u>\$ 9,280</u>
	=====	=====	=====	=====

**Weighted Average Shares Outstanding– Basic and Diluted**

The basic and diluted weighted average shares outstanding the three months ended March 31, 2007 is 26,195 thousand and for the year ended December 31, 2006 is 26,203 thousand and 26,213 thousand shares respectively.

At March 31, 2007, there is no dilutive effect associated with the outstanding stock options as the exercise price of the options is higher than the market price of the shares.

**Note 6**Equipment

<b>March 31, 2007</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Leasehold improvements	\$ 2,483	\$ 1,558	\$ 925
Office furniture and fixtures	2,891	1,995	896
Mobile equipment	165	146	19
Computer equipment	11,549	10,052	1,497
	<u>\$ 17,088</u>	<u>\$ 13,751</u>	<u>\$ 3,337</u>
	=====	=====	=====

Included in the above are capital leases for furniture and equipment of \$750 thousand less accumulated amortization of \$227 thousand.

<b>December 31, 2006</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Leasehold improvements	\$ 2,475	\$ 1,408	\$ 1,067
Office furniture and fixtures	2,829	1,902	927
Mobile equipment	165	142	23
Computer equipment	11,550	9,945	1,605
	<u>\$ 17,019</u>	<u>\$ 13,397</u>	<u>\$ 3,622</u>
	=====	=====	=====

Included in the above are capital leases for furniture and equipment of \$751 thousand less accumulated amortization of \$192 thousand.

Leasehold improvements includes an amount of \$500 thousand for tenant inducement as referred to in the Company's 2006 Annual Report, dated April 20, 2007.

## **Note 7**

### Other Intangible Assets

Carrying values of intangible assets at March 31, 2007 and December 31, 2006 are as follows:

	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Additions</b>
<b>March 31, 2007</b>				
Customer Contracts	\$ 8,575	\$ 7,016	\$ 1,559	\$ -
Databases	3,588	2,470	1,118	-
Trademarks	121	45	76	-
	<u>\$ 12,284</u>	<u>\$ 9,531</u>	<u>\$ 2,753</u>	<u>\$ -</u>
	=====	=====	=====	=====

The aggregate amortization expense of intangible assets for the three months ended March 31, 2007 was \$ 432 thousand.

	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Additions</b>
<b>December 31, 2006</b>				
Customer Contracts	\$ 8,655	\$ 6,835	\$ 1,820	\$ -
Databases	3,622	2,312	1,310	-
Trademarks	120	43	77	-
	<u>\$ 12,397</u>	<u>\$ 9,190</u>	<u>\$ 3,207</u>	<u>\$ -</u>
	=====	=====	=====	=====
Deferred financing costs	\$ 492	\$ 282	\$ 210	\$ -
	=====	=====	=====	=====

The aggregate amortization expense of intangible assets for the year ended December 31, 2006 was \$1,673 thousand.

Changes in carrying amounts shown for the intangible assets are affected by the exchange rate used for conversion from US currency to Canadian currency, in addition to any addition or disposal amounts.

The amortization of deferred financing charges charged to interest expense for the year ended December 31, 2006 was \$172 thousand.

### Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2007 and the year ended December 31, 2006:

#### Carrying Amount

Balance as at January 1, 2006	\$ 1,178
Adjustment for foreign exchange in the period	2
	-----
Balance as at December 31, 2006	\$ 1,180
Adjustment for foreign exchange in the period	(11)
	-----
Balance as at March 31, 2007	\$ 1,169
	=====

## Note 8

### Supplemental Information

	<b>For the three months ending March 31</b>	
	<b>2007</b>	<b>2006</b>
Assets purchased under capital lease	\$ -	\$ 195
Capital lease payments	371	669
Cash payments		
Income taxes paid	223	114
Interest paid	125	208

## Note 9

### Segmented Information

The Company operates in one business segment producing and marketing benefit and sports entertainment events with host organizations assisting not for profit and fund raising organizations in conducting fund raising activities.

The Company operates in two geographic areas, Canada and the United States of America.

	<b>Three months ending March 31, 2007</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Gross Revenues	\$ 10,873	\$ 17,283	\$ 28,156
Inter company eliminations	<u>( 10)</u>	<u>-</u>	<u>( 10)</u>
Revenues	10,863	17,283	28,146
Short term interest expense	2	14	16
Long term interest expense	2	221	223
Amortization	227	604	831
Income tax expense	23	192	215
Net earnings (loss)	(35)	152	117

**As at March 31, 2007**

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Total assets	\$ 10,069	\$ 18,671	\$ 28,740
Equipment expenditures	63	65	128
Equipment, including leaseholds below	1,911	1,426	3,337
Leaseholds, net book value	736	189	925
Customer Contracts	-	1,552	1,552
Databases	-	1,118	1,118
Trademarks	76	-	76
Goodwill	-	1,169	1,169

**Three months ending March 31, 2006**

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Gross Revenues	\$ 12,726	\$ 18,505	\$ 31,231
Inter company eliminations	( 4 )	-	( 4 )
Revenues	12,722	18,505	31,227
Short term interest expense	28	29	57
Long term interest (income) expense	(157)	355	198
Amortization	288	690	978
Income tax expense (recovery)	(77)	270	193
Net earnings (loss)	(184)	366	182

**As at March 31, 2006**

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Total assets	\$ 10,797	\$ 22,876	\$ 33,673
Equipment expenditures	353	99	452
Deferred financing cost	28	308	336
Equipment, including leaseholds below	2,133	1,974	4,107
Leaseholds, net book value	550	277	827
Customer Contracts	-	2,546	2,546
Databases	-	1,875	1,875
Trademarks	83	-	83
Goodwill	-	1,182	1,182

**As at December 31, 2006**

	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Total assets	\$ 10,767	\$ 20,358	\$ 31,125
Equipment expenditures	599	278	877
Deferred financing cost	-	210	210
Equipment, including leaseholds below	2,074	1,548	3,622
Leaseholds, net book value	853	214	1,067
Customer contracts	-	1,820	1,820
Databases	-	1,310	1,310
Trademarks	77	-	77
Goodwill	-	1,180	1,180

## **Note 10**

### Contingency

#### Schroder

The status of the litigation related to the aborted privatization transaction has not changed since it was reported on at December 31, 2006 except that the Company has filed additional motions which are to be heard in July 2007. A trial date cannot be set until those motions are resolved.

#### Vendor dispute

The status of the vendor dispute has not changed since it was reported on at December 31, 2006.



## Corporate Information

### Board of Directors

Michael P. Platz  
Chairman, President and CEO  
Xentel DM Incorporated  
Toronto, Ontario

Bernard Amyot  
Partner  
Heenan Blaikie, LLP  
Montreal, Quebec

Francis T. McAleer, C.A.  
Retired  
Calgary, Alberta

David A. Winograd  
President, US Operations  
Xentel DM Incorporated  
Milwaukee, Wisconsin

Craig S. Copland  
President  
Craig Copland and Associates Inc.  
Muskoka, Ontario

Barry S. Sattell, CPA  
President  
Sattell, Johnson, Appel & Co., S.C.  
Milwaukee, Wisconsin

B. Andrus Wilson  
President  
YTW Growth Capital  
Management Corporation  
Toronto, Ontario

### Management

Michael P. Platz  
Chairman, President and CEO  
Toronto, Ontario

Alan L. Kidd  
Director, Client Relations  
Pittsburgh, Pennsylvania

P. Leonard Wolstenholme  
Director, Corporate Development  
Calgary, Alberta

Larry Dow  
Director, Management Information Systems  
Kelowna, British Columbia

David A. Winograd  
President, US Operations  
Milwaukee, Wisconsin

Peter R. Pielsticker, C.A.  
Vice President, Corporate Finance  
Toronto, Ontario

Michael T. Dodd  
Director, Emerging Technologies  
Calgary, Alberta

J. Caren Holtby  
Investor Relations  
Williams Lake, British Columbia

#### Auditors

PricewaterhouseCoopers, LLP

#### Legal Counsel

Bennett Jones, LLP  
Tingle & Associates, LLP  
Neal Gerber & Eisenberg, LLP

#### Transfer Agent

Computershare Trust Company of Canada

#### Stock Listing

TSX Venture Exchange  
Trading symbol: XDM