



Shareholders' Quarterly Report

For the three months ended March 31, 2009

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Corporate Information

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with over 25 offices in Canada and the United States

Report to Our Shareholders for the First Quarter Ended March 31, 2009

The first quarter 2009 results are very positive with net earnings of \$573 thousand or \$0.02 per share. This is well ahead of first quarter 2008 results when net earnings were \$285 thousand or \$0.01 per share.

EBITDA for the first quarter 2009 was comparable to EBITDA for the first quarter 2008 at \$1,239 thousand or \$0.05 per diluted share to \$1,290 thousand or \$0.05 per diluted share respectively. Management continues to focus on cost optimization resulting in a reduction of corporate expenses of 14% from first quarter 2008 to first quarter 2009 from \$5,157 thousand to \$4,417 thousand respectively.

As a result of the very positive first quarter 2009 results combined with the strong performance in 2008, on April 30, 2009, the Board of Directors declared the Company's first dividend as a special dividend on its Class A common shares in the amount of \$0.02 per share to shareholders of record on May 14, 2009, payable May 29, 2009.

To date, the Company has experienced reductions in activity levels as a result of the downturn in the global economies. Management continues to remain vigilant and ready to take appropriate cost cutting and downsizing action, if warranted.

We were pleased to be in a position to issue the Company's first dividend and reward shareholders for their patience and support. This was made possible by the ongoing efforts of the Xentel team, and none of this would have occurred without the support and backing of our strong client base.



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

May 29, 2009

Xentel DM Incorporated
For the three months ended March 31, 2009
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, 2009 and 2008 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 of December 31, 2008 of the financial condition and results of operations and cash flow contained in the Company's 2008 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 Generally Accepted Accounting Principles (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.

Work in process and future income taxes

In the prior year, in adopting the amendments to CICA Handbook Section 1000, "Financial Statement Concepts" the Company reviewed its accounting policy with respect to work in process whereby expenses incurred in relation to activities undertaken to secure pledges and event revenue that has not been received were deferred. The

Company concluded that it was not appropriate to continue to defer those expenses and changed its accounting policies to conform to the revised “Financial Statement Concepts” of CICA Handbook Section 1000. Such changes in accounting policies need to be applied retroactively so that comparative data is consistently applied and compared to the current period under consideration. Accordingly, prior period financial statements have been adjusted and restated to reflect a write off of work in process together with the related income tax effect through future income taxes, effective January 1, 2007. The adjustment relating to work in process and the associated income tax effect at January 1, 2007 have been made to Retained Earnings as at that date, and, subsequently, as work in process adjustments had been factored into the financial results throughout 2007 and 2008 prior to this policy change, those adjustments together with the income tax effect have been reversed in the periods in which they originally occurred. Accordingly, the work in process, future income taxes long term assets, retained earnings and accumulated other comprehensive income in the financial statements for the three months ended March 31, 2008 have been restated, as follows:

	Originally Reported	Restated	Increase (Decrease)
Change to March 31, 2008 Consolidated Balance Sheets			
Work in process	\$ 5,717	\$ -	\$ (5,717)
Future income taxes, short term assets	120	2,341	2,221
Accumulated other comprehensive income	(4,009)	(3,747)	(262)
Retained earnings	5,552	1,794	(3,758)

Foreign exchange

The impact from the conversion of US dollars into Canadian dollars for the consolidation of the financial statements has moderated from the significant negative impact in previous quarters and prior years to a neutral or moderately positive position for the first quarter 2009 as a result of the decline during that period in the value of the Canadian dollar relative to the US dollar. The Canadian dollar has strengthened somewhat going into the second quarter which will have an adverse impact on operation results if that trend continues.

Financial instruments

Cash and cash equivalents, accounts receivable, due from related party, bank indebtedness, accounts payable and accrued liabilities, due to and due from related party and income taxes payable are short term financial instruments whose fair values approximate their carrying amounts given they will mature shortly.

International Financial Reporting Standards (IFRS)

The CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with the IFRS by 2011 and the Company will be required to report according to IFRS standards for the year ended December 31, 2011. The Company is assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosures. Preliminary evaluations would suggest that the biggest impact IFRS may have on the financial statements may be in the area of revenue recognition. It is too early in the evaluations to assess what the outcomes may be.

Overview

The Company is engaged in the business of profile enhancement for community based organizations, charities and other not for profit enterprises through the production and marketing of sports and entertainment events, newsletters and marketing materials, direct mail and fundraising activities.

The Company provides the following services to its Community Service Organization clients:

- Benefit events
- Fee for service and data development
- Revenue sharing
- Subcontract work
- Marketing list rentals

A more comprehensive description and overview of the Company operations is provided in the Company's 2008 Annual Report.

Gross revenues

An analysis of gross revenues for the three months ended March 31, 2009 follows:

	March 31			%	% Total	% Total
	2009	2008	+/-	Change	2009	2008
Canada	\$ 9,976	\$ 10,947	\$ (971)	(9)%	42%	45%
United States	13,914	13,493	421	3%	58%	55%
Total	\$ 23,890	\$ 24,440	\$ (550)	(2)%	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 15 of the consolidated financial statements for details.

Revenues for Canada decreased \$974 thousand or 9% for the three months ended March 31, 2009 over 2008. There has been a slight drop in activity levels given the current economic climate conditions. Also, the Company temporarily changed its calling patterns and data management techniques to soften the potential impact of consumer resistance with the introduction of the Canadian “do not call” in the fourth quarter of 2008. There has been some carry over into the first quarter of 2009 of that refocusing.

The analysis of the increase in US revenues for the three months ended March 31, 2009 versus the comparative period for 2008 is as follows:

- a decline in actual US revenues of \$2,264 thousand US or 17%, and,
- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar revenues into Canadian dollars of \$3,356 thousand.

The decrease in actual US revenues is attributable to a reduction in activity levels associated with the current economic climate conditions, combined with reduced capacity resulting from the labour model restructuring.

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:

	March 31		% of	% of
	2009	2008	Revenues	Revenues
			2009	2008
Canada	\$ 7,728	\$ 8,318	78%	76%
United States	10,789	10,441	78%	77%
Total	\$ 18,517	\$ 18,759	78%	77%

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:

	March 31			%
	2009	2008	+/-	Change
Canada				
\$	\$ 2,245	\$ 2,629	(384)	(15)%
% of Revenue	22%	24%	(2)%	
United States				
\$	\$ 3,126	\$ 3,052	74	2%
% of Revenue	22%	23%	(1)%	
Total				
\$	\$ 5,371	\$ 5,681	(310)	(6)%
% of Revenue	22%	23%	(1)%	

In Canada, of the decrease in the gross margin of \$384 thousand or 15% between the three months ended March 31, 2009 and 2008, \$233 thousand is the result of the decline in revenues explained above. For the remaining reduction in gross revenue of \$151 thousand there was no significant individual contributing factor to the decline in the gross margin percentage of 2%.

In the US, the gross margin increased \$74 thousand or 2% between the three months ended March 31, 2009 and 2008.

The analysis of the increase in US gross margin for the three months ended March 31, 2009 versus the comparative period for 2008 is as follows:

- an decrease in actual US gross margin of \$530 thousand US, and,
- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar gross margin into Canadian dollars of \$754 thousand.

Corporate expenses

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

For the three months ended March 31	2009	2008	+/-	% change
Branch overhead and corporate administration	\$ 4,132	\$ 4,391	\$ (259)	(6)%
Interest expense	33	105	(72)	(68)%
Amortization	252	661	(409)	(62)%
Total	\$ 4,417	\$ 5,157	\$ (740)	(14)%

Branch overhead and corporate administration expenses for each of the three months ended March 31, 2009 and 2008 were 17% and 18% of revenues respectively. The expense reductions are reductions in variable costs associated with the decrease in revenue volume and the impact of ongoing cost control measures. There is no one area that is a significant individual contributing factor to the decrease.

Interest expense decreased \$72 thousand or 68% between the three months ended March 31, 2009 and 2008, due to the full repayment of the subordinated debt in late 2008.

Amortization expense of equipment and other intangible assets declined between the first quarter of 2008 and the first quarter of 2009 by \$409 thousand or 62% due to the fact that the intangible assets acquired in the 2003 acquisition have been fully amortized by the fourth quarter 2008.

Income taxes

The Company follows the liability method of accounting for income taxes as recommended by the CICA, 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 substantively enacted income tax rates.

During the first quarter 2009, the Company provided:

- an expense of future income taxes of \$381 thousand being the application of prior years income tax losses against the current years taxable income which losses have been previously capitalized as future tax assets.

For the three months ended March 31, 2009, on earnings before income taxes of \$954 thousand, the income tax expense was \$381 thousand, resulting in an effective income tax rate of 40%. The tax provision was proportionately high due to expense items that were permanent differences for tax purposes and the fact that the rate of corporate income tax is higher in the US than in Canada.

During the first quarter 2008, the Company provided:

- current income taxes of \$91 thousand being income taxes payable on the current year's Canadian income, and;
- future income tax expense of \$139 thousand, being timing differences between accounting and tax income, primarily on the US operations.

For the three months ended March 31, 2008, on earnings before income taxes of \$515 thousand, the income tax expense was \$230 thousand, resulting in an effective income tax rate of 45%. The tax provision is disproportionately high due to expense items that are permanent differences for tax purposes and the fact that the rate of corporate income tax is higher in the US than in Canada.

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.

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

For the three months ended March	2009	2008
Net earnings for the period	\$ 573	\$ 285
Income tax expense	381	230
Amortization	252	661
Interest expense	33	105
Expenses relating to the 2003 privatization lawsuit	-	9
EBITDA	<u>\$ 1,239</u>	<u>\$ 1,290</u>

EBITDA for the three months ended March 31, 2009 was \$1,239 thousand or \$0.05 per basic and diluted share compared to EBITDA for the same period in 2008 of \$1,290 thousand or \$0.05 per basic and diluted share.

Net earnings

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

For the three months ended March 31	2009	2008	+/-
Earnings before income taxes	\$ 954	\$ 515	\$ 439
Income tax expense			
• Current income tax expense	-	91	91
• Future income tax expense	381	139	(242)
Income tax expense	381	230	(151)
Net earnings for the period	\$ 573	\$ 285	\$ 288
Basic and diluted net (loss) per share	\$ 0.02	\$ 0.01	\$ 0.01

The major components of the increase in earnings before income taxes of \$439 thousand for the three months ended March 31, 2009 versus the three months ended March 31, 2008 are as follows:

Decrease in gross margin	\$ (310)
Decrease in branch overhead and corporate administration	259
Decrease in interest expense	72
Decrease in amortization	409
Decrease in expenses relating to the 2003 privatization lawsuit	9
Total	\$ <u>439</u> =====

Geographical segmented information is presented in note 15 to the consolidated financial statements.

Capital resources and liquidity

Since December 31, 2008, the Company's working capital has improved by \$657 thousand from \$2,986 thousand at December 31, 2008 to \$3,643 thousand at March 31, 2009.

As at March 31, 2009 there is a positive working capital of \$657 thousand from the Canadian operations and positive working capital of \$2,986 thousand from the US operations.

Capital expenditures for the three months ended March 31, 2009 were \$90 thousand compared with \$467 thousand for the three months ended March 31, 2008. Capital expenditures related mainly to the end of lease buyouts on leased equipment and computer upgrades.

The Company's working capital is adequate for it to meet its ongoing obligations. Other than amounts due to related party which are partially offset by a receivable from related party, long term debt has been substantially extinguished. The Company has commenced a repayment program for the amount due to related party.

Credit facilities

The Company has in place credit facilities that provide for a revolving credit facility of \$1,750 thousand US on the US operations with interest on any outstanding balances at US bank prime plus 1% together with an overdraft facility for the Canadian operations of \$500 thousand US with interest on any outstanding balances at Canadian bank prime rate plus 2.25%, all subject to meeting certain financial covenants and limited to eligible accounts receivable. The Company is in compliance with the financial covenants. These credit facilities are scheduled for renewal on July 1, 2009.

Normal Course Issuer Bid (NCIB)

In October 2008, the Company received approval for a normal course issuer bid permitting the repurchase and cancellation of Company shares of up to 5% of its issued

and outstanding shares or 1,310 thousand shares. To December 31, 2008 the Company had purchased and cancelled 1,033 thousand shares. During the three months ended March 31, 2009, the remaining 277 thousand shares available under the NCIB were repurchased and cancelled.

Business risks

The Company's business risks have not changed since December 31, 2008 as reported on in the Company's 2008 Annual Report.

Contingencies

The Company's contingencies have not changed since December 31, 2008 as reported on in the Company's 2008 Annual Report.

Subsequent event

On April 30, 2009, the Company declared a special dividend on its Class A common shares in the amount of \$0.02 per share to shareholders of record as of May 14, 2009, payable May 29, 2009. The amount of the dividend payable is \$500 thousand.

Outlook

While it is difficult to assess, management is of the opinion that the Company will experience moderate reductions in revenues associated with the current global economic situation.

The Company has experienced some nominal adverse impact from the implementation of the "do not call" legislation in Canada; however, it would appear that management's approach to mitigating these effects has accomplished its objective.

The full impact of the labour utilization program in the US was not completely implemented until the fourth quarter 2008, so comparatives of revenues for the next three quarters are expected to be impacted by that program.

Reductions in cost of revenue and branch overhead and corporate administration expenses are being effected. 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.

	2009	FYE 2008 (restated – note1)					FYE 2007 (restated – note1)				
	1Q	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
Revenue	23.9	24.4	24.1	23.3	24.5	96.3	28.1	24.9	24.2	22.9	100.1
Gross margin	5.4	5.7	5.7	6.5	4.9	22.8	6.4	4.7	5.7	3.9	20.7
Earnings (loss) before taxes	1.0	0.5	0.8	1.5	(0.3)	2.5	0.3	(1.0)	0.3	(2.0)	(2.4)
Net earnings (loss)	0.6	0.3	0.5	0.9	(0.2)	1.5	0.1	(0.6)	0.1	(1.1)	(1.5)
EBITDA	1.2	1.3	1.4	2.3	0.3	5.3	1.4	(0.1)	1.2	(1.2)	1.3
Basic EPS	.02	0.01	0.02	0.03	0.0	0.06	0.0	(0.02)	0.0	(0.04)	(0.06)
Diluted EPS	.02	0.01	0.02	0.03	0.0	0.06	0.0	(0.02)	0.0	(0.04)	(0.06)
Diluted EBITDA per share	.05	0.05	0.05	0.09	0.01	0.20	0.05	0.00	0.05	(0.05)	0.05

FYE	2008	2007	2006	2005	2004	2003	2002
Revenue	96.3	100.1	113.6	124.9	130.8	102.4	107.4
Gross margin	22.8	20.7	27.6	31.0	31.7	22.0	30.0
Earnings (loss) before taxes	2.5	(2.4)	0.7	3.4	(4.4)	(4.5)	6.5
Net earnings (loss)	1.5	(1.5)	0.2	1.5	(2.8)	(2.9)	5.0
EBITDA	5.3	1.3	5.7	5.7	1.0	(0.7)	9.6
Basic EPS	0.06	(0.06)	0.01	0.06	(0.11)	(0.14)	0.26
Diluted EPS	0.06	(0.06)	0.01	0.06	(0.11)	(0.14)	0.24
Diluted EBITDA per share	0.20	0.05	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

<u>Balance Sheets as at March 31</u>	<u>2009</u>	<u>2008</u> <small>(restated – note1)</small>
Current assets	\$ 13,117	\$ 11,214
Long term assets	7,344	9,740
	<hr/>	<hr/>
Total assets	\$ 20,461	\$ 20,954
	=====	=====
Current liabilities	\$ 9,474	\$ 9,384
Long term liabilities	244	3,959
	<hr/>	<hr/>
Total liabilities	9,718	13,343
Shareholders' equity	10,743	7,611
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 20,461	\$ 20,954
	=====	=====

Toronto, Ontario, Canada
May 29, 2009

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 interim quarterly 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 annual 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 interim quarterly 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 2009 financial statements for the three months ended March 31, 2009 and 2008, together with the related Management Discussion and Analysis have not been reviewed by the Company's external auditors, PricewaterhouseCoopers LLP.



Michael P. Platz
Chairman and CEO



Peter R. Pielsticker, CA
Chief Financial Officer

Toronto, Ontario, Canada
May 29, 2009

Xentel DM Incorporated
Consolidated Balance Sheets
('000s)

	March 31, 2009 (unaudited)	March 31, 2008 (unaudited) (restated- note 1)	December 31, 2008 (audited)
Assets			
Current assets			
Cash and cash equivalents	\$ 1,346	\$ 114	\$ 1,365
Accounts receivable, net of allowances	7,146	7,158	6,910
Inventory	585	628	617
Prepaid expenses	1,229	973	1,235
Due from related party (note 10)	1,608	-	1,589
Future income taxes (note 8)	1,203	2,341	1,568
	<u>13,117</u>	<u>11,214</u>	<u>13,284</u>
Due from related party (note 10)	-	1,327	-
Equipment (note 3)	2,909	3,208	3,050
Future income taxes (note 8)	3,120	3,233	3,089
Other intangible assets (note 4)	62	938	64
Goodwill (note 5)	1,253	1,034	1,239
	<u>\$ 20,461</u>	<u>\$ 20,954</u>	<u>\$ 20,726</u>
	=====	=====	=====
Liabilities			
Current liabilities			
Bank indebtedness (note 6)	\$ 608	\$ 2,181	\$ 86
Accounts payable and accrued liabilities	5,316	5,132	5,877
Income taxes payable	89	88	275
Current portion of long term liabilities (note 7 and note 12)	90	1,321	141
Future income taxes (note 8)	710	662	715
Due to related party (note 10)	2,661	-	3,244
	<u>9,474</u>	<u>9,384</u>	<u>10,338</u>
Long term debt (note 7)	4	11	6
Future income taxes (note 8)	38	1,060	38
Deferred tenant inducement (note 11)	202	285	223
Due to related party (note 10)	-	2,603	-
	<u>9,718</u>	<u>13,343</u>	<u>10,605</u>
Shareholders' equity			
Share capital (note 13)	8,827	9,280	8,925
Warrants (note 13)	-	205	-
Contributed surplus	628	79	558
Accumulated other comprehensive income	(2,312)	(3,747)	(2,389)
Retained earnings	3,600	1,794	3,027
	<u>10,743</u>	<u>7,611</u>	<u>10,121</u>
	<u>\$ 20,461</u>	<u>\$ 20,954</u>	<u>\$ 20,726</u>
	=====	=====	=====

Contingencies (note 17), subsequent event (note 18) and commitments (note 9)
See accompanying notes to the consolidated financial statements.

Xentel DM Incorporated
Consolidated Statements of Operations and Retained Earnings
For the three months ended March 31

	2009	2008
('000s, except per share amounts)	(unaudited)	(unaudited) (restated- note 1)
Revenue	\$ 23,885	\$ 24,434
Cost of revenue	18,514	18,753
	<hr/>	<hr/>
Gross margin	5,371	5,681
	<hr/>	<hr/>
Corporate expenses		
Branch overhead and corporate administration	4,132	4,391
Interest expense	33	105
Amortization of equipment	250	291
Amortization of intangible assets	2	370
	<hr/>	<hr/>
	4,417	5,157
	<hr/>	<hr/>
Earnings before undernoted items	954	524
Other items		
Expenses relating to the 2003 privatization lawsuit (note 17)	-	9
	<hr/>	<hr/>
Earnings before income taxes	954	515
	<hr/>	<hr/>
Income tax expense (note 8)		
Current income tax expense	-	91
Future income tax expense	381	139
	<hr/>	<hr/>
	381	230
	<hr/>	<hr/>
Net earnings	573	285
Retained earnings, beginning of period	3,027	1,509
	<hr/>	<hr/>
Retained earnings, end of period	\$ 3,600	\$ 1,794
	=====	=====
Basic and diluted net earnings per share	\$ 0.02	\$ 0.01
	=====	=====
Basic weighted average number of shares	25,163	26,195
	=====	=====
Diluted weighted average number of shares	25,163	26,195
	=====	=====

See accompanying notes to the consolidated financial statements.

Xentel DM Incorporated
Consolidated Statements of Contributed Surplus
For the three months ended March 31
('000s)

	2009 (unaudited)	2008 (unaudited)
Balance, beginning of period	\$ 558	\$ 79
Discount on share repurchase from stated value	70	-
Balance, end of period	\$ <u>628</u> =====	\$ <u>79</u> =====

Xentel DM Incorporated
Consolidated Statements of Comprehensive Income
For the three months ended March 31
('000s)

	2009 (unaudited)	2008 (unaudited) (restated- note 1)
Net earnings for period	\$ 573	\$ 285
Foreign currency translation adjustment from self sustaining foreign operations	77	164
Comprehensive income	\$ <u>650</u> =====	\$ <u>449</u> =====

Xentel DM Incorporated
Consolidated Statements of Accumulated Other Comprehensive Income
For the three months ended March 31
('000s)

	2009 (unaudited)	2008 (unaudited) (restated- note 1)
Balance, beginning of period	\$ (2,389)	\$ (3,911)
Foreign currency translation adjustment from self sustaining foreign operations	77	164
Balance, end of period	\$ <u>(2,312)</u> =====	\$ <u>(3,747)</u> =====

See accompanying notes to the consolidated financial statements.

Xentel DM Incorporated
Consolidated Statements of Cash Flows
For the three months ended March 31
('000s)

	2009 (unaudited)	2008 (unaudited)
Cash flows from (used in) operating activities		
Net earnings for the year	\$ 573	\$ 285
<i>Non cash transactions reflected in net earnings</i>		
Amortization	252	661
Future income tax expense	381	139
Adjustment for non cash interest	-	61
	<u>1,206</u>	<u>1,146</u>
<i>Net change in non cash working capital items</i>		
Accounts receivable	(197)	(569)
Inventory	38	15
Prepaid expenses	10	(127)
Other current assets	(12)	-
Income taxes payable	(195)	22
Accounts payable and accrued liabilities	(587)	(849)
	<u>(943)</u>	<u>(1,508)</u>
Net change in non cash working capital items	(943)	(1,508)
	<u>263</u>	<u>(362)</u>
Cash flows from (used in) financing activities		
Bank indebtedness	520	851
Long term debt repaid	(692)	(115)
Redemption of share capital (note 13)	(28)	-
	<u>(200)</u>	<u>736</u>
Cash flows (used in) investing activities		
Investment in equipment	(90)	(467)
	<u>(90)</u>	<u>(467)</u>
Effect of exchange rate fluctuations on cash balances		
	<u>8</u>	<u>2</u>
Net decrease in cash and cash equivalents	(19)	(91)
Cash and cash equivalents, beginning of period	<u>1,365</u>	<u>205</u>
Cash and cash equivalents, end of period	<u>\$ 1,346</u> =====	<u>\$ 114</u> =====

See accompanying notes to the consolidated financial statements.

Xentel DM Incorporated
Notes to Consolidated Financial Statements
For the three months ended March 31, 2009 and 2008
(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, 2009 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 2008 Annual Report, dated April 29, 2009. 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 2008 Annual Report, dated April 29, 2009.

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.

Work in process and future income taxes

In the prior year, in adopting the amendments to CICA Handbook Section 1000, "Financial Statement Concepts" the Company reviewed its accounting policy with respect to work in process whereby expenses incurred in relation to activities undertaken to secure pledges and event revenue that has not been received were deferred. The Company concluded that it was not appropriate to continue to defer those expenses and changed its accounting policies to conform to the revised "Financial Statement Concepts" of CICA Handbook Section 1000. Such changes in accounting policies need to be applied retroactively so that comparative data is consistently applied and compared to the current period under consideration. Accordingly, prior period financial statements have been adjusted and restated to reflect a write off of work in process together with the related income tax effect through future income taxes, effective January 1, 2007. The adjustment relating to work in process and the associated income tax effect at January 1, 2007 have been made to Retained Earnings as at that date, and, subsequently, as work in process adjustments had been factored into the financial results throughout 2007 and 2008 prior to this policy change, those adjustments together with the income tax effect have been reversed in the periods in which they originally occurred.

Accordingly, the work in process, future income taxes long term assets, retained earnings and accumulated other comprehensive income in the financial statements for the three months ended March 31, 2008 have been restated, as follows:

	Originally Reported	Restated	Increase (Decrease)
Change to March 31, 2008 Consolidated Balance Sheets			
Work in process	\$ 5,717	\$ -	\$ (5,717)
Future income taxes, short term assets	120	2,341	2,221
Accumulated other comprehensive income	(4,009)	(3,747)	(262)
Retained earnings	5,552	1,794	(3,758)

International Financial Reporting Standards (IFRS)

The CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with the IFRS by 2011 and the Company will be required to report according to IFRS standards for the year ended December 31, 2011. The Company is assessing the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosures. Preliminary evaluations would suggest that, amongst other matters, one of the biggest impacts IFRS may have on the financial statements may be in the area of revenue recognition. It is too early in the evaluations to assess what the outcomes may be.

Note 2

Capital Disclosures

The Company's capital structure is comprised of the following:

	March 31, 2009	December 31, 2008
Long term debt, including current portion	\$ 11	\$ 64
Due to related party	2,661	3,244
Due from related party	(1,608)	(1,589)
Net debt	<u>1,064</u>	<u>1,719</u>
Shareholders' equity	10,743	10,121
Net capitalization	<u>\$ 11,807</u>	<u>\$ 11,840</u>

The Company's objectives when managing capital are to maintain a capital structure that provides financing options and access to capital on reasonably competitive commercial terms, as needed, while maintaining financial flexibility to meet its financial obligations, including debt service payments and dividend payments, as appropriate. In order to maintain or adjust its capital structure, the Company may modify its debt load, alter its share capital and/or adjust the payment of dividends and the capital structure is based on needs and market and economic conditions. The Company did not change its approach to capital management during the period, except that it has arranged for a normal course issuer bid which to the extent shares are repurchased, would reduce the share capital outstanding.

Subsequent to March 31, 2009, the Company declared a special dividend on its Class A common shares payable May 29, 2009 in the amount of \$500 thousand.

The ratio of net debt to net capitalization at March 31, 2009 was 0.09:1 (December 31, 2008 – 0.15:1).

Note 3

Equipment

March 31, 2009	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 2,623	\$ 2,158	\$ 465
Office furniture and fixtures	3,190	2,341	849
Mobile equipment	182	148	34
Computer equipment	13,105	11,544	1,561
	<u>\$ 19,100</u>	<u>\$ 16,191</u>	<u>\$ 2,909</u>
	=====	=====	=====

Included in the above are capital leases for office furniture and fixtures and computer equipment of \$1,201 thousand less accumulated amortization of \$727 thousand.

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 2,615	\$ 2,079	\$ 536
Office furniture and fixtures	3,172	2,287	885
Mobile equipment	160	154	6
Computer equipment	12,984	11,361	1,623
	<u>\$ 18,931</u>	<u>\$ 15,881</u>	<u>\$ 3,050</u>
	=====	=====	=====

Included in the above are capital leases for office furniture and fixtures and computer equipment of \$1,191 thousand less accumulated amortization of \$667 thousand.

Note 4

Other Intangible Assets

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.

Carrying values of intangible assets at March 31, 2009 and December 31, 2008 are as follows:

March 31, 2009	Carrying Amount	Accumulated Amortization	Net Book Value	Additions
Customer contracts	\$ 9,190	\$ 9,190	\$ -	\$ -
Databases	3,846	3,846	-	-
Trademarks	121	59	62	-
	<u>\$ 13,157</u>	<u>\$ 13,095</u>	<u>\$ 62</u>	<u>\$ -</u>
	=====	=====	====	====
December 31, 2008	Carrying Amount	Accumulated Amortization	Net Book Value	Additions
Customer contracts	\$ 9,091	\$ 9,091	\$ -	\$ -
Databases	3,804	3,804	-	-
Trademarks	121	57	64	-
	<u>\$ 13,016</u>	<u>\$ 12,952</u>	<u>\$ 64</u>	<u>\$ -</u>
	=====	=====	====	====

The aggregate amortization expense of intangible assets for the three months ended March 31, 2009 was \$143 thousand (for the year ended December 31, 2008 - \$1,306 thousand).

The change in the carrying amount of the assets between March 31, 2009 and March 31, 2008 is due to fluctuations in the exchange rate between the Canadian and US dollars. There were no additions or disposals of assets in this category.

Note 5

Goodwill

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

Carrying Amount

Balance as at January 1, 2007	\$ 1,180
Adjustment for foreign exchange in the year	(176)
	<hr/>
Balance as at December 31, 2007	1,004
Adjustment for foreign exchange in the year	235
	<hr/>
Balance as at December 31, 2008	\$ 1,239
Adjustment for foreign exchange in the year	14
	<hr/>
Balance as at March 31, 2009	\$ 1,253
	=====

The Company has two reporting units. All of the Goodwill is attributable to the US reporting unit. The Company performed an annual goodwill impairment test as at December 31, 2008. The current fair value of the Company and the reporting unit was based on market data. As at December 31, 2008, the fair value of the US reporting unit was in excess of its book value

Note 6

Credit Facilities

The Company has in place credit facilities that provide for a revolving credit facility of \$1,750 thousand US on the US operations with interest on any outstanding balances at US bank prime plus 1% together with an overdraft facility for the Canadian operations of \$500 thousand US with interest on any outstanding balances at Canadian bank prime rate plus 2.25%, all subject to meeting certain financial covenants and limited to eligible accounts receivable. The Company is in compliance with the financial covenants. These credit facilities are scheduled for renewal on July 1, 2009.

Note 7

Long Term Debt

	March 31, 2009	December 31, 2008
Capital lease – due in October 2010 bearing interest at 8.82% per annum.	\$ 11	\$ 64
	<u>11</u>	<u>64</u>
Less portion included in current liabilities	(7)	(58)
	<u>\$ 4</u>	<u>\$ 6</u>
	=====	=====

Estimated future minimum capital lease payments required in each of the following years are as follows:

2009	\$ 6
2010	4
	<u>10</u>
Total future minimum capital lease payments	10
Add imputed interest	1
	<u>\$ 11</u>
Capitalized value	===

Note 8

Income Taxes

There are timing differences relating to revenue and expenses deferred for income tax purposes, amortization where the cumulative amounts claimed for income tax purposes differs from the amounts recorded in the accounts and non capital income tax losses which are available to be applied against future years' income to reduce income taxes otherwise payable. The income tax effect of these differences is shown in the financial statements as future income taxes in current assets, long term assets, current liabilities and long term liabilities, as applicable.

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

For the three months ended March 31	2009	2008
Income taxes at a combined Federal and Provincial rate of 33.5%	\$ 320	\$ 172
Effect on income taxes resulting from:		
• permanent differences, net	6	26
• difference between Canada and US income tax rates	34	17
• other	21	15
	———	———
Income tax expense	\$ 381	\$ 230
	=====	=====

At March 31, 2009 and December 31, 2008, future income taxes are comprised of:

	March 31, 2009	December 31, 2008
Future income tax asset – current		
Income taxes on expenses deferred for income tax purposes	\$ 1,203	\$ 1,568
	———	———
Future income tax asset – current	\$ 1,203	\$ 1,568
	=====	=====
Future income tax asset – long term		
Income taxes on expenses deferred for income tax purposes	\$ 3,086	\$ 3,055
Income taxes on capital income tax losses carried forward	34	34
	———	———
Future income tax assets – long term	\$ 3,120	\$ 3,089
	=====	=====

	March 31, 2009	December 31, 2008
Future income tax liability – current		
Income taxes on deferred revenue for income tax purposes	\$ 710	\$ 715
	_____	_____
Future income tax liability – current	\$ 710	\$ 715
	=====	=====
Future income tax liability – long term		
Income taxes on assets in excess of income tax values	\$ 38	\$ 38
	_____	_____
	\$ 38	\$ 38
	=====	=====

Note 9

Commitments

The Company rents certain equipment and premises under operating leases requiring minimum rental payments as follows:

2009	\$ 2,263
2010	2,143
2011	1,239
2012	514
2013	120
2014 and thereafter	25

The Company has contract payments and royalty guarantees to client organizations requiring minimum annual payments as follows:

2009	\$3,259
2010	2,151
2011	1,247
2012	-

Note 10

Related Party Transactions

During the year, the Company incurred expenses to related parties, who were related as a result of being officers and/or directors of the Company, as follows:

For the three months ended March 31	2009	2008
Rent expense	\$ 95	\$ 87
Interest revenue	21	21
Interest expense	26	-

These transactions were in the normal course of business and were measured at the exchange amounts, which were the amounts of consideration agreed to by the related parties.

	March 31, 2009	December 31, 2008
Due from related party – current portion	\$ 1,608	\$ 1,589

The amount due from related party is an amount due from the President, who is also a Director. This amount is a note receivable bearing interest at 4% secured by 5 million Company shares owned by the related party. The note is non recourse except to the extent that the related party has received payment against the note due to related party noted below in the amount of \$3,244 thousand. This note receivable arose as a result of transactions where the related party received an advance to purchase the interest in the note due to related parties from a second related party together with that person's investment in Company shares in the amount of \$828 thousand US combined with a second transaction to purchase as a private placement an additional 1.4 million Company shares from treasury for a cash consideration of \$471 thousand US. Interest on the note receivable is receivable monthly with the principal payments being deferred until the amount due to related party is repaid, as noted below.

	March 31, 2009	December 31, 2008
Due to related party – current portion	\$ 2,661	\$ 3,244

The amount due to related party is an amount due to the President, who is also a Director. Actual interest on the note is accruing beginning on January 1, 2009 at a rate of the greater of US Prime Bank Rate or 5%.

It is anticipated the amounts due from and due to related parties will be satisfied in 2009 and these amount are included in current assets and current liabilities accordingly.

Note 11

Tenant inducements

In 2006, the Company entered into a premises lease that provided for the Company to expend approximately \$500 thousand in tenant improvements as part of the leasing arrangements. An amount of \$550 thousand was paid to the landlord for reimbursement of costs incurred by the landlord in this connection.

Subsequently, the Company negotiated a new lease that provided for recovery of \$500 thousand of the cost of tenant improvements from the landlord in consideration of increased rent for the remaining term of the original lease.

In accordance with the CICA EIC-21, the Company is obligated to treat the reimbursement of the tenant improvement costs from the landlord as a tenant inducement and to capitalize the costs of the tenant improvements to be amortized over the life of the new lease on a straight line basis and to set up an equal and offsetting “liability” shown as deferred tenant inducement which is also to be amortized as a reduction to rent expense. The current portion of the amortization of deferred tenant inducement is included in current liabilities under “current portion of long term liabilities” as noted in note 12 below.

Note 12

Current portion of long term liabilities

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

	March 31, 2009	December 31, 2008
Current portion of long term debt	\$ 7	\$ 58
Current portion of deferred tenant inducement	83	83
Total current portion of long term liabilities	\$ <u>90</u> ===	\$ <u>141</u> ===

Note 13

Share Capital

Authorized

Unlimited number of:

Class A common voting shares

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

Issued

	March 31, 2009		December 31, 2008	
	# of shares	\$	# of shares	\$
	in 000's		in 000's	
Class A Common Shares				
Balance, beginning of period	25,262	\$ 8,925	26,195	\$ 9,280
Exercise of options	-	-	100	11
Redemption and cancellation of shares	(277)	(98)	(1,033)	(366)
Balance, end of period	<u>24,985</u>	<u>\$ 8,827</u>	<u>25,262</u>	<u>\$ 8,925</u>
	=====	=====	=====	=====

Normal Course Issuer Bid

In October 2008, the Company received approval for a normal course issuer bid permitting the repurchase and cancellation of Company shares of up to 5% of its issued and outstanding shares or 1,310 thousand shares. To December 31, 2008 the Company had purchased and cancelled 1,033 thousand shares. From January 1, 2009 to March 31, 2009, the Company purchased and cancelled 277 thousand shares.

Weighted Average Shares Outstanding – Basic and Diluted

The basic and diluted weighted average shares outstanding for the three months ended March 31, 2009 is 25,163 thousand and for the year ended December 31, 2008 is 26,111 thousand shares.

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 14

Supplemental Information

For the three months ended March 31	2009	2008
Assets purchased under capital lease	\$ -	\$ 395
Capital lease payments	39	87
Cash payments		
Income taxes paid	195	77
Interest paid	33	56

Note 15

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 fundraising organizations in conducting fundraising activities.

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

	Three months ended March 31, 2009		
	Canada	United States	Total
Gross revenues	\$ 9,976	\$ 13,914	\$ 23,890
Intercompany eliminations	(3)	(2)	(5)
Revenues	9,973	13,912	23,885
Short term interest expense	2	-	2
Long term interest expense	-	31	31
Amortization	102	150	252
Income tax expense	105	276	381
Net earnings	196	377	573

As at March 31, 2009

	Canada	United States	Total
Total assets	\$ 6,202	\$14,259	\$ 20,461
Equipment expenditures	2	88	90
Equipment, including leaseholds below	1,139	1,770	2,909
Leaseholds, net book value	405	60	465
Trademarks	62	-	62
Goodwill	-	1,253	1,253

Three months ending March 31, 2008

	Canada	United States	Total
Gross revenues	\$ 10,947	\$ 13,493	\$ 24,440
Intercompany eliminations	(6)	-	(6)
	<hr/>	<hr/>	<hr/>
Revenues	10,941	13,493	24,434
Short term interest expense	9	8	17
Long term interest expense	1	87	88
Amortization	161	500	661
Income tax expense	115	115	230
Net earnings	190	95	285

As at December 31, 2008

	Canada	United States	Total
Total assets	\$6,024	\$ 14,702	\$ 20,726
Equipment expenditures	132	522	654
Equipment, including leaseholds below	1,237	1,813	3,050
Leaseholds, net book value	443	93	536
Trademarks	64	-	64
Goodwill	-	1,239	1,239

Note 16

Financial Instruments and Risk Management

The Company has determined that the fair value of its current assets and current liabilities approximates their carrying value due to the short term maturity of those items within one year.

The fair value of the note due from related party approximates its carrying value as the note is fully secured and interest is being charged at commercially competitive rates on the outstanding balance.

The Company, inherent as part of its operations, is exposed to a variety of financial risks, namely:

- market risk, including foreign exchange risk and interest rate risk,
- credit risk, and,
- liquidity risk.

The Company's risk management objective is to ensure that its financial performance is not subject to any material adverse impact of unmanaged risk.

Foreign exchange risk

The foreign exchange risk primarily relates to an effect on consolidation, since the US operations are self sustaining on a US currency basis. For every 100 basis point change in the foreign exchange conversion rate it is anticipated the effect on net earnings will be approximately \$3 thousand. Accordingly, a 3% increase in the value of the Canadian dollar relative to the US dollar, the net earnings would decrease by \$9 thousand.

Interest rate risk

Debt subject to variable interest rates relates to senior debt which at March 31, 2009 totaled \$11 thousand. The subordinated note debt matured as at October 31, 2008. Senior debt fluctuates as part of cash flow but is limited to \$2,250 thousand US under the existing credit arrangements. The net amount owed relating to amounts due to and due from related party is \$1,053 thousand and is scheduled for repayment during 2009. Management does not believe that the impact of interest rate fluctuations on variable interest rate debt levels will be significant as a result of the limited amount of debt carried by the Company and therefore has not provided any sensitivity analysis of interest charges against net earnings.

Credit risk

The Company has very limited exposure to credit risk.

Donor obligations, based on the revenue recognition policy, are only recognized once pledges are received. Accordingly, accounts receivable are based on cash already deposited into the customers' bank account maintained at commercial banking establishments. Accounts receivable at March 31, 2009 amounted to \$7,146 thousand.

The Company holds a note due from related party which is fully secured by 5 million shares of the Company but is non recourse except to the extent that the note due to related party has been repaid. The amount of the note due from related party outstanding at March 31, 2009 is \$1,608 thousand.

The Company maintains cash balances with Canadian commercial banks and major US banks, none of whom are currently subject to government support. To the extent that one or more of these banks were to fail and cash balances on deposit were in excess of government guarantees related to bank failures, the Company may not be able to continue to access these funds. The amount of cash and cash equivalents at March 31, 2009 was \$1,346 thousand.

Liquidity risk

Liquidity risk is the risk of the Company's ability to meet its obligations as they come due. At March 31, 2009, the Company had net working capital of \$3,643 thousand whereas the total long term debt amounted to \$11 thousand, senior debt amounted to \$608 thousand and the net amount owed to related party was \$1,605 thousand. At that date, accounts receivable were \$7,146 with accounts payable of \$5,316 thousand. Cash and cash equivalents amounted to \$1,346 thousand. Should the Company's lenders withdraw their credit support, the Company is in a position to continue to meet its obligations as they come due.

Note 17

Contingencies

The Company's contingencies have not changed since December 31, 2008 as reported on in the Company's 2008 Annual Report.

Note 18

Subsequent event

On April 30, 2009, the Company declared a special dividend on its Class A common shares in the amount of \$0.02 per share to shareholders of record as of May 14, 2009, payable May 29, 2009. The amount of the dividend payable is \$500 thousand.



Corporate Information

Board of Directors

Michael P. Platz
Chairman 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
Xentel DM Incorporated
Milwaukee, Wisconsin

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

B. Andrus Wilson
President,
YTW Growth Capital Partners Inc.
Toronto, Ontario

Herb Wodehouse, FCGA
Managing Partner
Whitley Wodehouse
Hamilton, Ontario

Management

Michael P. Platz
Chairman and CEO
Toronto, Ontario

Stanley T. Tsui
Director, Management Information Systems
Calgary, Alberta

P. Leonard Wolstenholme
Director, Corporate Development
Calgary, Alberta

David A. Winograd
President
Milwaukee, Wisconsin

Peter R. Pielsticker, C.A.
Chief Financial Officer
Toronto, Ontario

Michael T. Dodd
Director, Emerging Technologies
Calgary, Alberta

J. Caren Holtby
Investor Relations
Vancouver, British Columbia

Auditors

PricewaterhouseCoopers, LLP

Legal Counsel

Bennett Jones, LLP
Copilevitz & Canter, LLC
Neal, Gerber & Eisenberg, LLP

Transfer Agent

Computershare Trust Company of Canada

Stock Listing

TSX Venture Exchange
Trading symbol: XDM