# Shareholders' Quarterly Report

## For the three and nine months ended September 30, 2009

## Contents



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**with over 25 offices in Canada and the United States**

## Report to Our Shareholders for the Third Quarter Ended September 30, 2009

The financial report to shareholders, together with the related Management Discussion and Analysis report for the three and nine months ended September 30, 2009 are attached. We are pleased to report continuing positive results.

Net earnings for the three months ended September 30, 2009 amounted to $697 thousand or $0.03 per diluted share and for the nine months ended September 30, 2009 amounted to $1,951 thousand or $0.08 per diluted share. This compares to the respective periods in 2008 (as restated) of $922 thousand or $0.04 per diluted share and $1,705 thousand or $0.07 per diluted share. The net earnings for both the three and nine months of 2008 have been restated because of the previous write off of work in process, as explained in note 1 of the Notes to the Unaudited Consolidated Financial Statements, having the effect of improving the comparative 2008 net earnings by $481 thousand for the three months ended September 30, 2008 and by $672 thousand for the nine months ended September 30, 2008. Had these restatements not been made for the 2008 amounts, the comparison between 2009 and 2008 would have been shown increases period over period.

Although sustaining profitability, we have seen declines in revenues. Revenues for the three months ended September 30 ,2009 amounted to $22,317 thousand compared to $23,275 thousand for the three months ended September 30, 2008, a decline of 4% and, for the nine months ending September 30 2009 versus 2008 revenues were $69,931 thousand compared to $71,765 thousand, a decline of 3%.

EBITDA for the third quarter 2009 was $1,389 and for the year to date was $4,110 or $0.05 per diluted share and $0.16 per diluted share respectively. Comparative amounts for 2008 were $2,313 thousand and $5,062 thousand or $0.09 per diluted share and $0.19 per diluted share for the respective periods. The comparative amounts for 2008 have been restated because of the adjustments made to the reported earnings in 2008 due to the previous write off of work in process as explained above. Similarly, had these restatements not been made for the 2008 results, the comparison between 2009 and 2008 would have shown increases period over period.

Cash reserves are building, working capital is improving and the remaining long term debt due to related parties is being extinguished. The balance sheet is improving quarter over quarter. Subsequent to the close of the third quarter 2009, the Company received approval to repurchase 1,246 thousand of its issued shares for cancellation.

Management remains committed to cost containment and profit optimization. To date in 2009, the Company has continued to produce strong earnings in spite of the economic downturn experienced throughout the economy as a whole.

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

November 30, 2009

## Xentel DM Incorporated
## For the three and nine months ended September 30, 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 and nine months ended September 30, 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 have 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 undernoted items have been restated in the financial statements for the three and nine months ended September 30, 2008, as follows:

**Change to September 30, 2008 Consolidated Balance Sheets**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Work in process | $ 4,701 | $ - | $ (4,701) |
| Future income taxes, short term assets | 46 | 1,899 | 1,853 |
| Accumulated other comprehensive income | (3,775) | (3,537) | 238 |
| Retained earnings | 6,300 | 3,214 | (3,086) |

**Change to Consolidated Statements of Operations for the three months ended September 30, 2008**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Cost of revenue | $ 17,527 | $ 16,771 | $ (756) |
| Gross margin | 5,748 | 6,504 | 756 |
| Earnings before tax | 699 | 1,455 | 756 |
| Income tax expense | 258 | 533 | 275 |
| Net earnings for the period | 441 | 922 | 481 |

**Change to Consolidated Statements of Operations for the nine months ended September 30, 2008**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Cost of revenue | $ 54,909 | $ 53,852 | $ (1,057) |
| Gross margin | 16,856 | 17,913 | 1,057 |
| Earnings before tax | 1,752 | 2,809 | 1,057 |
| Income tax expense | 719 | 1,104 | 385 |
| Net earnings for the period | 1,033 | 1,705 | 672 |

To better explain the comparative changes between 2008 and 2009, where adjustments have been made during the period as a result of the write off of work in process in certain charts the original and restated amounts are shown.

**Foreign exchange**

The impact from the conversion of US dollars into Canadian dollars for the consolidation of the financial statements has diminished from the significant negative impact in previous quarters to a relatively neutral position for the third quarter 2009 as a result of only a small change in the value of the Canadian dollar relative to the US dollar.

**Financial instruments**

Cash and cash equivalents, accounts receivable, due from related party, bank indebtedness, accounts payable and accrued liabilities, due to 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. Also, there may be some impact relating to operating and capital lease requirements. It is too early in the evaluation process to assess what the outcomes may be. The Company will be engaging outside consultants to assist in the transition.

## 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 database development.

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 September 30 follows:

| | September 30 2009 | 2008 | +/- | % Change | % Total 2009 | % Total 2008 |
|---|---|---|---|---|---|---|
| Canada | $ 10,225 | $ 10,551 | $ (326) | (3)% | 46% | 45% |
| United States | 12,095 | 12,731 | (636) | (5)% | 54% | 55% |
| Total | $ 22,320 | $ 23,282 | $ (962) | (4)% | 100% | 100% |

An analysis of gross revenues for the nine months ended September 30 follows:

| | September 30 2009 | 2008 | +/- | % Change | % Total 2009 | % Total 2008 |
|---|---|---|---|---|---|---|
| Canada | $ 30,232 | $ 32,432 | $ (2,200) | (7)% | 43% | 45% |
| United States | 39,720 | 39,362 | 358 | 1% | 57% | 55% |
| Total | $ 69,952 | $ 71,794 | $ (1,842) | (3)% | 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 $326 thousand or 3% for the three months ended September 30, 2009 over 2008. Similarly, revenues decreased by $2,200 or 7% for the nine months ended September 30, 2009 versus 2008. The declines for both the three months and nine months ended September 30, 2009 versus 2008 are attributable to current economic conditions and the slight negative impact of the introduction of the "do not call" legislation in Canada.

The analysis of the decrease in US revenues for the three months ended September 30, 2009 versus the comparative period for 2008 is as follows:

- a decline in actual US revenues of $1,149 thousand US or 9%, and,
- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar revenues into Canadian dollars of $665 thousand.

The analysis of the increase in US revenues for the nine months ended September 30, 2009 versus the nine months ended September 30, 2008 is as follows:

- a decline in actual US revenues of $4,692 thousand US or 12%, and,
- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar revenues into Canadian dollars of $6,010 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.

The year to date impact of the foreign exchange conversion on US operations is disproportionately significant due to the fact that the first and second quarter conversion rates comparing to the same periods in 2008 were very significant, the result of which has carried forward into the year to date figures.

**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 September 30 follows:

| | **September 30** | | | **% of Revenues** | | |
|---|---|---|---|---|---|---|
| | **2009** | **2008** (restated) | **2008** (original) | **2009** | **2008** (restated) | **2008** (original) |
| Canada | $ 7,520 | $ 7,021 | $ 7,496 | 73% | 66% | 71% |
| United States | 9,502 | 9,757 | 10,038 | 79% | 77% | 79% |
| Total | $ 17,022 | $ 16,778 | $ 17,534 | 76% | 72% | 75% |

An analysis of cost of revenue for the nine months ended September 30 follows:

| | September 30 | | | % of Revenues | | |
|---|---|---|---|---|---|---|
| | **2009** | **2008** (restated) | **2008** (original) | **2009** | **2008** (restated) | (original) |
| Canada | $ 23,224 | $ 23,695 | $ 24,370 | 77% | 73% | 75% |
| United States | 30,494 | 30,186 | 30,568 | 77% | 77% | 78% |
| Total | $ 53,718 | $ 53,881 | $ 54,938 | 77% | 75% | 77% |

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

The 2008 comparative amounts have changed from the amounts shown at September 30, 2008 due the adjustments for work in process made in the third quarter 2008 which have been reversed due to the write off of work in process, as described above.

An analysis of the gross margin for the three months ended September 30 follows:

| | September 30 | | | | % |
|---|---|---|---|---|---|
| | **2009** | **2008** (restated) | **2008** (original) | **+/-** (restated) | **Change** |
| **Canada** | | | | | |
| $ | $ 2,705 | $ 3,530 | 3,055 | $ (825) | (23)% |
| % of Revenue | 27% | 34% | 29% | (7)% | |
| **United States** | | | | | |
| $ | $ 2,593 | $ 2,974 | 2,693 | $ (381) | (13)% |
| % of Revenue | 21% | 23% | 21% | (2)% | |
| **Total** | | | | | |
| $ | $ 5,298 | $ 6,504 | 5,748 | $(1,206) | (19)% |
| % of Revenue | 24% | 25% | 25% | (4)% | |

An analysis of the gross margin for the nine months ended September 30 follows:

| | September 30 | | | | % |
|---|---|---|---|---|---|
| | **2009** | **2008** (restated) | **2008** (original) | **+/-** | **Change** (restated) |
| **Canada** | | | | | |
| $ | $ 7,008 | $ 8,737 | $ 8,062 | $ (1,729) | (20)% |
| % of Revenue | 23% | 27% | 25% | (4)% | |
| **United States** | | | | | |
| $ | $ 9,226 | $ 9,176 | $ 8,794 | $ 50 | 1% |
| % of Revenue | 23% | 23% | 22% | 0% | |
| **Total** | | | | | |
| $ | $ 16,234 | $ 17,913 | $ 16,856 | $ (1,679) | (9)% |
| % of Revenue | 23% | 25% | 23% | (2)% | |

In Canada and the US for both the three and nine month periods, the restatement for the work in process adjustment in 2008 improved the gross margin and the gross margin percentages resulting in decreases when comparing 2009 to 2008 that are more significant than if the restatement had not occurred.

In Canada, there was a decrease in the gross margin of $825 thousand or 23% between the three months ended September 30, 2009 and 2008. The gross margin percentage of revenues declined 7% due to a marginal decrease in labour productivity combined with an increase in event costs. Also, aside from the above, the gross margin declined as a result of the decline in gross revenues.

For the nine months ended September 30, 2009 versus the nine months ended September 30, 2008, the gross margin declined in Canada by $1,729 thousand and the gross margin percentage of revenues declined 4%. Factors affecting the decline in gross margin percentage of revenues occurred with percentage declines in the areas of event costs and labour productivity. Also, aside from the above, the gross margin declined as a result of the decline in gross revenues.

The analysis of the decrease in US gross margin for the three months ended September 30, 2009 versus the comparative period for 2008 is as follows:

- a decrease in actual US gross margin of $463 thousand US, and,
- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar gross margin into Canadian dollars of approximately $143 thousand.

The analysis of the increase in US gross margin for the nine months ended September 30, 2009 to the comparative period for 2008 is as follows:

- a decrease in actual US gross margin of $1,022 thousand US, and,

- the positive impact from the foreign currency exchange rate fluctuations on converting the US dollar gross margin into Canadian dollars of approximately $1,678 thousand.

The year to date impact of the foreign exchange conversion is disproportionately significant due to the fact that the first and second quarter conversion rates comparing to the same periods in 2008 were very significant, the result of which has carried forward into the year to date figures.

**Corporate expenses**

An analysis of the corporate expenses for the three months ended September 30 follows:

| **For the three months ended September 30** | **2009** | **2008** | **+/-** | **% change** |
|---|---|---|---|---|
| Branch overhead and corporate administration | $ 3,909 | 4,191 | (282) | (7)% |
| Interest expense | 25 | 115 | (90) | (78)% |
| Amortization | 223 | 695 | (472) | (68)% |
| Total | $ 4,157 | 5,001 | (844) | (17)% |

An analysis of the corporate expenses for the nine months ended September 30 follows:

| **For the nine months ended September 30** | **2009** | **2008** | **+/-** | **% change** |
|---|---|---|---|---|
| Branch overhead and corporate administration | $ 12,124 | 12,851 | (727) | (6)% |
| Interest expense | 106 | 357 | (251) | (70)% |
| Amortization | 722 | 1,822 | (1,100) | (60)% |
| Total | $ 12,952 | 15,030 | (2,078) | (14)% |

Branch overhead and corporate administration expenses for the three and nine months ended September 30, 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. The decreases are broadly based across all expense categories.

Interest expense decreased $90 thousand or 78% between the three months ended September 30, 2009 and 2008, due to extinguishing the subordinated debt in late 2008. Similarly, for the nine months ended September 30, 2009 versus 2008 interest expense decreased $251 thousand or 70%. The only remaining interest expense of any consequence is interest relating to amounts due to related party.

Amortization expense of equipment and other intangible assets declined between the third quarter of 2008 and the third quarter of 2009 by $472 thousand or 68% due to the fact that the intangible assets acquired in the 2003 acquisition were fully amortized by the fourth quarter 2008. Similarly for the nine months ended September 30, 2009 compared to 2008, amortization declined by $1,100 thousand or 60%.

**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.

Overall, the effective tax rate for the Company should be approximately 35%. In Canada the tax rate is approximately 30.0% and in the US the tax rate is 40.5%.

During the third quarter 2009, the Company provided:

- an expense of future income taxes of $310 thousand primarily 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, combined with timing differences between accounting and tax income, mainly on the US operations, and,
- an expense of current income taxes of $134 thousand being taxes estimated to be currently payable on state income taxes in the US which cannot be offset by tax losses from other jurisdictions.

For the three months ended September 30, 2009, on earnings before income taxes of $1,141 thousand, the income tax expense was $444 thousand, resulting in an effective income tax rate of 39%. The tax provision was disproportionately 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 third quarter 2008, the Company provided:

- current income taxes of $302 thousand being income taxes payable on the current year's Canadian income, and,
- future income tax expense of $231 thousand, being timing differences between accounting and tax income, primarily on the US operations.

For the three months ended September 30, 2008, on earnings before income taxes of $1,455 thousand, the income tax expense was $533 thousand resulting in an effective income tax rate of 37%. The tax provision is disproportionately high due to expense items that are not deductible for tax purposes and the fact that the rate of corporate income tax is higher in the US than in Canada.

For the nine months ended September 30, 2009, the Company provided:

- current income taxes of $164 thousand being taxes estimated to be currently payable on state income taxes in the US which cannot be offset by tax losses from other jurisdictions, and,
- future income tax expense of $1,167 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, combined with timing differences between accounting and tax income, mainly on the US operations.

For the nine months ended September 30, 2008, on earnings before income taxes of $3,282 thousand, the income tax expense was $1,331 thousand resulting in an effective income tax rate of 41%. The tax provision is disproportionately high due to expense items that are not deductible for tax purposes and the fact that the rate of corporate income tax is higher in the US than in Canada.

For the nine months ended September 30, 2008, the Company has provided:

- current income taxes of $426 thousand being income taxes payable on the current year's Canadian income, and,
- future income tax expense of $678 thousand, being timing differences between accounting and tax income, primarily on the US operations.

For the nine months ended September 30, 2008, on earnings before income taxes of $2,809 thousand, the income tax expense was $1,104 thousand resulting in an effective income tax rate of 39%. The tax provision is disproportionately high due to expense items that are not deductible 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.

In Canada and the US for both the three and nine month periods, the restatement for the work in process adjustment in 2008 improved the EBITDA resulting in decreases when comparing 2009 to 2008 that are more significant than if the restatement had not occurred.

An analysis of EBITDA for the three months ended September 30 follows:

| **For the three months ended September 30** | **2009** | **2008** (restated) | (original) |
|---|---|---|---|
| Net earnings for the period | $ 697 | $ 922 | $ 441 |
| Income tax expense | 444 | 533 | 258 |
| Amortization | 223 | 695 | 695 |
| Interest expense | 25 | 115 | 115 |
| Expenses relating to the 2003 privatization lawsuit | - | 48 | 48 |
| EBITDA | $ 1,389 | $ 2,313 | $ 1,557 |

EBITDA for the three months ended September 30, 2009 was $1,389 thousand or $0.05 diluted share compared to EBITDA for the same period in 2008 of $2,313 thousand or $0.09 per diluted share.

An analysis of EBITDA for the nine months ended September 30 follows:

| **For the nine months ended September 30** | **2009** | **2008** (restated) | (original) |
|---|---|---|---|
| Net earnings for the period | $ 1,951 | $ 1,705 | $ 1,033 |
| Income tax expense | 1,331 | 1,104 | 719 |
| Amortization | 722 | 1,822 | 1,822 |
| Interest expense | 106 | 357 | 357 |
| Expenses relating to the 2003 privatization lawsuit | - | 74 | 74 |
| EBITDA | $ 4,110 | $ 5,062 | $ 4,005 |

EBITDA for the nine months ended September 30, 2009 was $4,110 thousand or $0.16 per diluted share compared to EBITDA for the same period in 2008 of $5,062 thousand or $0.19 per diluted share.

**Net earnings**

An analysis of net earnings for the three months ended September 30 follows:

| For the three months ended September 30 | 2009 | 2008 | +/- |
|---|---|---|---|
| Earnings before income taxes | $ 1,141 | $ 1,455 | $ (314) |
| Income tax expense | | | |
| • Current income tax expense | 134 | 302 | (168) |
| • Future income tax expense | 310 | 231 | 79 |
| Income tax expense | 444 | 533 | (89) |
| Net earnings for the period | $ 697 | $ 922 | $ (225) |
| Basic net earnings per share | $ 0.03 | $ 0.04 | $ (0.01) |
| Diluted net earnings per share | $ 0.03 | $ 0.04 | $ (0.01) |

The major components of the decrease in earnings before income taxes of $314 thousand for the three months ended September 30, 2009 versus the three months ended September 30, 2008 are as follows:

| | |
|---|---|
| Decrease in gross margin | $ (1,206) |
| Decrease in branch overhead and corporate administration | 282 |
| Decrease in interest expense | 90 |
| Decrease in amortization | 472 |
| Decrease in expenses relating to the 2003 privatization lawsuit | 48 |
| Total | $ (314) |

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

An analysis of net earnings for the nine months ended September 30 follows:

| **For the nine months ended September 30** | **2009** | **2008** | **+/-** |
|---|---|---|---|
| Earnings before income taxes | 3,282 | 2,809 | 473 |
| Income tax expense | | | |
| • Current income tax expense | 164 | 426 | (262) |
| • Future income tax expense | 1,167 | 678 | 489 |
| Income tax expense | 1,331 | 1,104 | 227 |
| Net earnings for the period | 1,951 | 1,705 | 246 |
| Basic net earnings per share | $ 0.08 | $ 0.07 | $ 0.01 |
| Diluted net earnings per share | $ 0.08 | $ 0.07 | $ 0.01 |

The major components of the increase in earnings before income taxes of $473 thousand for the nine months ended September 30, 2009 versus the nine months ended September 30, 2008 are as follows:

| | |
|---|---|
| Decrease in gross margin | $ (1,679) |
| Decrease in branch overhead and corporate administration | 727 |
| Decrease in interest expense | 251 |
| Decrease in amortization | 1,100 |
| Decrease in expenses relating to the 2003 privatization lawsuit | 74 |
| Total | $ 473 |

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 $1,535 thousand from $2,946 thousand at December 31, 2008 to $4,481 thousand at September 30, 2009. This working capital improvement was accomplished after paying a dividend in the amount of $500 thousand and making payments on debt reduction to related parties in the amount of $1,270 thousand.

As at September 30, 2009 there is a positive working capital of $685 thousand from the Canadian operations and positive working capital of $3,796 thousand from the US operations.

Capital expenditures for the nine months ended September 30, 2009 were $353 thousand compared with $590 thousand for the nine months ended September 30, 2008. Capital expenditures related mainly to the end of lease buyouts on leased equipment and computer upgrades. The Company has been able to optimize capital expenditures as a result of the fact that there is significant remaining service on existing computer equipment given a quality maintenance program.

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 amounts due to related party.

## Intangible Assets

The change in the carrying amount of the assets between September 30, 2009 and September 30, 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

## Goodwill

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. No events since December 31, 2008 have occurred that would suggest there has been any impairment to Goodwill.

## 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 were renewed on July 1, 2009.

## Share capital

### Authorized

Unlimited number of:

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

**Issued**

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | # of shares in 000's | $ | # of shares in 000's | $ |
| **Class A Common Shares** | | | | |
| Balance, beginning of period | 25,262 | $ 8,925 | 26,195 | $ 9,280 |
| Exercise of options | - | - | 100 | 11 |
| Repurchase and cancellation of shares | (277) | (98) | (1,033) | (366) |
| Balance, end of period | 24,985 | $ 8,827 | 25,262 | $ 8,925 |
| | ===== | ==== | ===== | ==== |

**Dividend**

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 was $500 thousand.

**Normal Course Issuer Bid (NCIB)**

In October, 2008, the Company had received approval for a NCIB, expiring October 2009, permitting the repurchase and cancellation of up to 5% of its then outstanding shares or 1,310 thousand shares. To December 31, 2008 the Company had purchased and cancelled 1,033 thousand shares at a cost of $107 thousand. During the three months ended March 31, 2009, the remaining 277 thousand shares available under the previously approved NCIB were repurchased and cancelled at a cost of $28 thousand

**Subsequent event, Normal Course Issuer Bid**

In November 2009, the Company received approval for a NCIB, expiring November 2010, permitting the repurchase and cancellation of Company shares of up to 5% of its issued and outstanding shares or 1,246 thousand shares. The Company has not commenced any purchasing pending the release of these financial statements. The cost of repurchasing shares will be allocated to a reduction of share capital for their assigned value with any excess being recorded as contributed surplus.

**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.

## Outlook

While it is difficult to assess, management is of the opinion that the Company will continue to 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 quarter is 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. For the nine months ended September 30, 2009 compared to the same period in 2008, Branch overhead and corporate administration expenses were reduced by $727 thousand.

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

| | **FYE 2009** | | | |
|---|---|---|---|---|
| | **1Q** | **2Q** | **3Q** | **Total** |
| Revenue | 23.9 | 23.7 | 22.3 | 69.9 |
| Gross margin | 5.3 | 5.6 | 5.3 | 16.2 |
| Earnings before taxes | 0.9 | 1.2 | 1.1 | 3.2 |
| Net earnings | 0.6 | 0.7 | 0.7 | 2.0 |
| EBITDA | 1.2 | 1.5 | 1.4 | 4.1 |
| Basic EPS | 0.02 | 0.03 | 0.03 | 0.08 |
| Diluted EPS | 0.02 | 0.03 | 0.03 | 0.08 |
| Diluted EBITDA per share | 0.05 | 0.06 | 0.05 | 0.16 |

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

| **Balance Sheets as at September 30** | **2009** | **2008** (restated – note1) |
| --- | --- | --- |
| Current assets | $ 12,393 | $ 12,489 |
| Long term assets | 6,223 | 7,397 |
| Total assets | $ 18,616 | $ 19,886 |
| Current liabilities | $ 7,912 | $ 9,311 |
| Long term liabilities | 195 | 1,328 |
| Total liabilities | 8,107 | 10,639 |
| Shareholders' equity | 10,509 | 9,247 |
| Total liabilities and shareholders' equity | $ 18,616 | $ 19,886 |

Toronto, Ontario, Canada
November 30, 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 third quarter 2009 financial statements for the three and nine months ended September 30, 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
November 30, 2009

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

| | September 30, 2009 (unaudited) | September 30, 2008 (unaudited) (restated- note 1) | December 31, 2008 (audited) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 2,615 | $ 855 | $ 1,365 |
| Accounts receivable, net of allowances | 6,671 | 6,343 | 6,910 |
| Inventory | 510 | 606 | 617 |
| Prepaid expenses | 610 | 1,331 | 1,235 |
| Due from related party (note 10) | 1,417 | 1,455 | 1,589 |
| Future income taxes (note 8) | 570 | 1,899 | 1,568 |
| | 12,393 | 12,489 | 13,284 |
| Equipment (note 3) | 2,493 | 2,954 | 3,050 |
| Future income taxes (note 8) | 2,567 | 3,205 | 3,089 |
| Intangible assets (note 4) | 58 | 187 | 64 |
| Goodwill (note 5) | 1,105 | 1,051 | 1,239 |
| | $ 18,616 | $ 19,886 | $ 20,726 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank indebtedness (note 6) | $ 316 | $ 88 | $ 86 |
| Accounts payable and accrued liabilities | 4,846 | 4,987 | 5,877 |
| Income taxes payable | 197 | 459 | 275 |
| Current portion of long term liabilities (note 7 and note 12) | 91 | 390 | 141 |
| Future income taxes (note 8) | 715 | 662 | 715 |
| Due to related party (note 10) | 1,747 | 2,725 | 3,244 |
| | 7,912 | 9,311 | 10,338 |
| Long term debt (note 7) | 1 | 7 | 6 |
| Future income taxes (note 8) | 34 | 1,077 | 38 |
| Deferred tenant inducement (note 11) | 160 | 244 | 223 |
| | 8,107 | 10,639 | 10,605 |
| **Shareholders' equity** | | | |
| Share capital (note 13) | 8,827 | 9,280 | 8,925 |
| Warrants | - | 205 | - |
| Contributed surplus | 628 | 85 | 558 |
| Accumulated other comprehensive income | (3,424) | (3,537) | (2,389) |
| Retained earnings | 4,478 | 3,214 | 3,027 |
| | 10,509 | 9,247 | 10,121 |
| | $ 18,616 | $ 19,886 | $ 20,726 |

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

**Xentel DM Incorporated**
**Consolidated Statements of Operations and Retained Earnings**
**('000s, except per share amounts)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2009 (unaudited)** | **2008 (unaudited) (restated - note 1)** | **2009 (unaudited)** | **2008 (unaudited) (restated - note 1)** |
| **Revenue** | $ 22,317 | $ 23,275 | $ 69,931 | $ 71,765 |
| **Cost of revenue** | 17,019 | 16,771 | 53,697 | 53,852 |
| **Gross margin** | 5,298 | 6,504 | 16,234 | 17,913 |
| **Corporate expenses** | | | | |
| Branch overhead and corporate administration | 3,909 | 4,191 | 12,124 | 12,851 |
| Interest expense | 25 | 115 | 106 | 357 |
| Amortization of equipment | 221 | 310 | 716 | 696 |
| Amortization of intangible assets | 2 | 385 | 6 | 1,126 |
| | 4,157 | 5,001 | 12,952 | 15,030 |
| **Earnings before undernoted items** | 1,141 | 1,503 | 3,282 | 2,883 |
| **Other item** | | | | |
| Expenses related to 2003 privatization lawsuit | - | 48 | - | 74 |
| **Earnings before income taxes** | 1,141 | 1,455 | 3,282 | 2,809 |
| **Income tax expense** (note 8) | | | | |
| Current income tax expense | 134 | 302 | 164 | 426 |
| Future income tax expense | 310 | 231 | 1,167 | 678 |
| | 444 | 533 | 1,331 | 1,104 |
| **Net earnings** | 697 | 922 | 1,951 | 1,705 |
| **Retained earnings, beginning of period** | 3,781 | 2,292 | 3,027 | 1,509 |
| Dividends paid (note 16) | - | - | 500 | - |
| **Retained earnings, end of period** | $ 4,478 | $ 3,214 | $ 4,478 | $ 3,214 |
| Basic and diluted net earnings per share | $ 0.03 | $ 0.04 | $ 0.08 | $ 0.07 |
| Basic weighted average number of shares outstanding (note 13) | 24,985 | 26,195 | 25,042 | 26,195 |
| Diluted weighted average number of shares outstanding (note 13) | 25,845 | 26,195 | 25,376 | 26,195 |

See accompanying notes to the consolidated financial statements.

**Xentel DM Incorporated**
**Consolidated Statements of Contributed Surplus**
**('000s)**

| | Three Months Ended September 30 (unaudited) | | Nine Months Ended September 30 (unaudited) | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Balance, beginning of period | $ 628 | $ 79 | $ 558 | $ 79 |
| Discount on share repurchase from book value | - | 6 | 70 | 6 |
| Balance, end of period | $ 628 | $ 85 | $ 628 | $ 85 |

**Xentel DM Incorporated**
**Consolidated Statements of Comprehensive Income**
**('000s)**

| | Three Months Ended September 30 (unaudited) | | Nine months Ended September 30 (unaudited) | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Net earnings for the period | $ 697 | $ 922 | $ 1,951 | $ 1,705 |
| Foreign currency translation adjustment from self sustaining foreign operations | (501) | 266 | (1,035) | 374 |
| Comprehensive income | $ 196 | $ 1,188 | $ 916 | $ 2,079 |

**Xentel DM Incorporated**
**Consolidated Statements of Accumulated Other Comprehensive Income**
**('000s)**

| | Three Months Ended September 30 (unaudited) | | Nine Months Ended September 30 (unaudited) | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Balance, beginning of period | $ (2,923) | $ (3,803) | $ (2,389) | $ (3,911) |
| Foreign currency translation adjustment from self sustaining foreign operations | (501) | 266 | (1,034) | 374 |
| Balance, end of period | $ (3,424) | $ (3,537) | $ (3,423) | $ (3,537) |

See accompanying notes to the financial statements.

**Xentel DM Incorporated**
**Consolidated Statements of Cash Flows**
**('000s)**

| | **Three Months Ended September 30 2009 (unaudited)** | **Three Months Ended September 30 2008 (unaudited) (restated - note 1)** | **Nine Months Ended September 30 2009 (unaudited)** | **Nine Months Ended September 30 2008 (unaudited) (restated - note 1)** |
|---|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | | |
| Net earnings for the period | $ 697 | $ 922 | $ 1,951 | $ 1,705 |
| *Non cash transactions reflected in net earnings* | | | | |
| Amortization | 223 | 695 | 722 | 1,822 |
| Future income tax expense | 310 | 231 | 1,167 | 678 |
| Adjustment for non cash interest | - | 86 | - | 210 |
| Adjustment for non cash tenant inducement rent credit | (21) | (21) | (63) | (63) |
| Stock based compensation | - | 6 | - | 6 |
| | 1,209 | 1,919 | 3,777 | 4,358 |
| *Net change in non cash working capital items* | | | | |
| Accounts receivable | 447 | (13) | (130) | 285 |
| Inventory | 54 | (3) | 66 | 41 |
| Prepaid expenses | 183 | (349) | 586 | (481) |
| Other current assets | (9) | (8) | (35) | (4) |
| Income taxes payable / recoverable | 170 | 353 | (110) | 393 |
| Accounts payable and accrued liabilities | (16) | (602) | (771) | (1,026) |
| Net change in non cash working capital items | 829 | (622) | (394) | (792) |
| | 2,038 | 1,297 | 3,383 | 3,566 |
| **Cash flows from (used in) financing activities** | | | | |
| Bank indebtedness | (360) | (157) | 240 | (1,228) |
| Due to related party repaid | (355) | - | (1,270) | - |
| Long term debt repaid | (2) | (504) | (64) | (1,089) |
| Repurchase of share capital (note 13) | - | - | (28) | - |
| Dividends paid (note 16) | - | - | (500) | - |
| | (717) | (661) | (1,622) | (2,317) |
| **Cash flow (used in) investing activities** | | | | |
| Investment in equipment | (200) | (43) | (353) | (590) |
| **Effect of exchange rate fluctuations on cash balances** | (100) | (6) | (158) | (9) |
| Net increase in cash and cash equivalents | 1,021 | 587 | 1,250 | 650 |
| **Cash and cash equivalents, beginning of period** | 1,594 | 1,365 | 1,365 | 205 |
| **Cash and cash equivalents, end of period** | $ 2,615 | $ 1,952 | $ 2,615 | $ 855 |

See accompanying notes to the financial statements.

**Xentel DM Incorporated**
**Notes to Unaudited Consolidated Financial Statements**
**For the three and nine months ended September 30, 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 and nine months ended September 30, 2009 should be read in conjunction with 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 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 undernoted items have been restated in the financial statements for the three and nine months ended September 30, 2008, as follows:

**Change to September 30, 2008 Consolidated Balance Sheets**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Work in process | $ 4,701 | $ - | $ (4,701) |
| Future income taxes, short term assets | 46 | 1,899 | 1,853 |
| Accumulated other comprehensive income | (3,775) | (3,537) | 238 |
| Retained earnings | 6,300 | 3,214 | (3,086) |

**Change to Consolidated Statements of Operations for the three months ended September 30, 2008**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Cost of revenue | $ 17,527 | $ 16,771 | $ (756) |
| Gross margin | 5,748 | 6,504 | 756 |
| Earnings before tax | 699 | 1,455 | 756 |
| Income tax expense | 258 | 533 | 275 |
| Net earnings for the period | 441 | 922 | 481 |

**Change to Consolidated Statements of Operations for the nine months ended September 30, 2008**

| | Originally Reported | Restated | Increase (Decrease) |
|---|---|---|---|
| Cost of revenue | $ 54,909 | $ 53,852 | $ (1,057) |
| Gross margin | 16,856 | 17,913 | 1,057 |
| Earnings before tax | 1,752 | 2,809 | 1,057 |
| Income tax expense | 719 | 1,104 | 385 |
| Net earnings for the period | 1,033 | 1,705 | 672 |

**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. Also, there may be some impact relating to operating and capital lease requirements. It is too early in the evaluation process to assess what the outcomes may be. The Company will be engaging outside consultants to assist in the transition.

**Reclassification**

Certain information provided in the prior periods has been reclassified to conform with the current periods' presentation.

## Note 2

*Capital Disclosures*

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

| | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| Long term debt, including current portion | $ 9 | $ 64 |
| Due to related party | 1,747 | 3,244 |
| Due from related party | (1,417) | (1,589) |
| Net debt | 339 | 1,719 |
| Shareholders' equity | 10,509 | 10,121 |
| Net capitalization | $ 10,848 | $ 11,840 |

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. 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 arranged for a normal course issuer bid in November 2009 to reduce the share capital outstanding and paid a special dividend in May 2009 in the amount of $500 thousand.

The ratio of net debt to net capitalization at September 30, 2009 was 0.03:1 (December 31, 2008 – 0.15:1).

## Note 3

*Equipment*

| **September 30, 2009** | **Cost** | **Accumulated Amortization** | **Net Book Value** |
|---|---|---|---|
| Leasehold improvements | $ 2,542 | $ 2,200 | $ 342 |
| Office furniture and fixtures | 3,073 | 2,340 | 733 |
| Mobile equipment | 174 | 120 | 54 |
| Computer equipment | 12,591 | 11,227 | 1,364 |
| | $ 18,380 | $ 15,887 | $ 2,493 |
| | ====== | ===== | ===== |

Included in the above are capital leases for office furniture and fixtures and computer equipment of $1,139 thousand less accumulated amortization of $839 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 |
| | $ 18,931 | $ 15,881 | $ 3,050 |
| | ====== | ===== | ===== |

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

*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 September 30, 2009 and December 31, 2008 are as follows:

| **September 30, 2009** | **Carrying Amount** | **Accumulated Amortization** | **Net Book Value** | **Additions** |
|---|---|---|---|---|
| Customer contracts | $ 8,108 | $ 8,108 | $ - | $ - |
| Databases | 3,393 | 3,393 | - | - |
| Trademarks | 120 | 62 | 58 | - |
| | $ 11,621 | $ 11,563 | $ 58 | $ - |

| **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 | - |
| | $ 13,016 | $ 12,952 | $ 64 | $ - |

The aggregate amortization expense of intangible assets for the nine months ended September 30, 2009 was $5 thousand and for the nine months ended September 30, 2008 was $1,126 thousand.

The change in the carrying amount of the assets between September 30, 2009 and September 30, 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 nine months ended September 30, 2009 and the year ended December 31, 2008 are as follows:

Carrying Amount

| | |
|---|---|
| Balance as at December 31, 2008 | $ 1,239 |
| Adjustment for foreign exchange in the year | (134) |
| Balance as at September 30, 2009 | $ 1,105 |

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. No events since December 31, 2008 have occurred that would suggest there has been any impairment to Goodwill.

## 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 at September 30, 2009. These credit facilities were renewed on July 1, 2009.

## Note 7

*Long Term Debt*

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Capital lease –** due in October 2010 bearing interest at 8.82% per annum. | $ 9 | $ 64 |
| | 9 | 64 |
| Less portion included in current liabilities | (8) | (58) |
| | $ 1 | $ 6 |
| | ==== | ==== |

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

| | |
|---|---|
| 2009 | $ 2 |
| 2010 | 6 |
| Total future minimum capital lease payments | 8 |
| Add imputed interest | 1 |
| Capitalized value | $ 9 |
| | === |

## 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 September 30** | **2009** | **2008** |
|---|---|---|
| Income taxes at a combined rate of 30.0% (2008 – 33.5%) | $ 342 | $ 488 |
| Effect on income taxes resulting from: | | |
| • permanent differences, net | 9 | 44 |
| • difference between Canada and US income tax rates | 41 | 5 |
| • other | 52 | (4) |
| Income tax expense | $ 444 | $ 533 |

| **For the nine months ended September 30** | **2009** | **2008** |
|---|---|---|
| Income taxes at a combined rate of 30.0% (2008 – 33.5%) | $ 985 | $ 941 |
| Effect on income taxes resulting from: | | |
| • permanent differences, net | 21 | 104 |
| • difference between Canada and US income tax rates | 187 | 62 |
| • other | 138 | (3) |
| Income tax expense | $ 1,331 | $ 1,104 |

At September 30, 2009 and December 31, 2008, future income taxes are comprised of:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Future income tax asset – current** | | |
| Income taxes on expenses deferred for income tax purposes | $ 264 | $ 1,568 |
| Income taxes on unclaimed tax credits carried forward | 278 | - |
| Income taxes on income tax losses carried forward | 28 | - |
| Future income tax asset – current | $ 570 | $ 1,568 |
| **Future income tax asset – long term** | | |
| Income taxes on expenses deferred for income tax purposes | $ 2,081 | $ 3,055 |
| Income taxes on income tax losses carried forward | 442 | - |
| Income taxes on capital income tax losses carried forward | 44 | 34 |
| Future income tax assets – long term | $ 2,567 | $ 3,089 |

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Future income tax liability – current** | | |
| Income taxes on deferred revenue for income tax purposes | $ 715 | $ 715 |
| Future income tax liability – current | $ 715 | $ 715 |
| **Future income tax liability – long term** | | |
| Income taxes on assets in excess of income tax values | $ 34 | $ 38 |
| | $ 34 | $ 38 |

## Note 9

*Commitments*

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

| | |
|---|---|
| 2009 | $ 1,367 |
| 2010 | 2,206 |
| 2011 | 1,248 |
| 2012 | 545 |
| 2013 | 164 |
| 2014 and thereafter | 64 |

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

| | |
|---|---|
| 2009 | $ 1,072 |
| 2010 | 2,369 |
| 2011 | 1,264 |
| 2012 and thereafter | 7 |

## 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 September 30** | **2009** | **2008** |
|---|---|---|
| Rent expense | $ 8 | $ 95 |
| Interest revenue | 14 | 15 |
| Interest expense | 24 | 32 |

| **For the nine months ended September 30** | **2009** | **2008** |
|---|---|---|
| Rent expense | $ 68 | $ 276 |
| Interest revenue | 50 | 41 |
| Interest expense | 105 | 164 |

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.

| | **September 30, 2009** | **December 31, 2008** |
|---|---|---|
| Due from related party | $ 1, 417 | $ 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.

| | **September 30,2009** | **December 31, 2008** |
|---|---|---|
| Due to related party | $ 1,747 | $ 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 amounts 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:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Current portion of long term debt | $ 8 | $ 58 |
| Current portion of deferred tenant inducement | 83 | 83 |
| Total current portion of long term liabilities | $ 91 | $ 141 |

## 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**

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | # of shares in 000's | $ | # of shares in 000's | $ |
| **Class A Common Shares** | | | | |
| Balance, beginning of period | 25,262 | $ 8,925 | 26,195 | $ 9,280 |
| Exercise of options | - | - | 100 | 11 |
| Repurchase and cancellation of shares | (277) | (98) | (1,033) | (366) |
| Balance, end of period | 24,985 | $ 8,827 | 25,262 | $ 8,925 |

**Normal Course Issuer Bid (NCIB)**

In October, 2008, the Company had received approval for a NCIB, expiring October 2009, permitting the repurchase and cancellation of up to 5% of its then outstanding shares or 1,310 thousand shares. To December 31, 2008 the Company had purchased and cancelled 1,033 thousand shares at a cost of $107 thousand. During the three months ended March 31, 2009, the remaining 277 thousand shares available under the previously approved NCIB were repurchased and cancelled at a cost of $28 thousand

**Subsequent event, Normal Course Issuer Bid**

In November 2009, the Company received approval for a NCIB, expiring November 2010, permitting the repurchase and cancellation of Company shares of up to 5% of its issued and outstanding shares or 1,246 thousand shares. The Company has not commenced any purchasing pending the release of these financial statements. The cost of repurchasing shares will be allocated to a reduction of share capital for their assigned value with any excess being recorded as contributed surplus.

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

The basic weighted average shares outstanding for the nine months ended September 30, 2009 is 25,042 thousand and for the nine months ended September 30, 2008 is 26,195 thousand. The diluted weighted average shares outstanding for the nine months ended September 30, 2009 is 25,376 thousand and for the nine months ended September 30, 2008 is 26,195 thousand.

## Note 14

*Supplemental Information*

| **For the nine months ended September 30** | **2009** | **2008** |
|---|---|---|
| Assets purchased under capital lease | $ - | $ 389 |
| Capital lease payments | 40 | 124 |
| Cash payments | | |
| Income taxes paid | 321 | 85 |
| Interest paid | 107 | 131 |

## 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 September 30, 2009 | | |
|---|---|---|---|
| | Canada | United States | Total |
| Gross revenues | $ 10,225 | $ 12,095 | $ 22,320 |
| Intercompany eliminations | ( 3) | - | (3) |
| Revenues | 10,222 | 12,095 | 22,317 |
| Short term interest expense | 1 | - | 1 |
| Long term interest expense | 1 | 23 | 24 |
| Amortization | 104 | 119 | 223 |
| Income tax expense | 268 | 176 | 444 |
| Net earnings | 464 | 233 | 697 |
| Equipment expenditures | 86 | 114 | 200 |

| | Nine months ended September 30, 2009 | | |
|---|---|---|---|
| | Canada | United States | Total |
| Gross revenues | $ 30,232 | $ 39,720 | $ 69,952 |
| Intercompany eliminations | (21) | - | (21) |
| Revenues | 30,211 | 39,720 | 69,931 |
| Short term interest expense | 11 | 5 | 16 |
| Long term interest expense | 1 | 89 | 90 |
| Amortization | 310 | 412 | 722 |
| Income tax expense | 414 | 917 | 1,331 |
| Net earnings | 701 | 1,250 | 1,951 |
| Equipment expenditures | 123 | 230 | 353 |

| | As at September 30, 2009 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| Total assets | $ 11,347 | $ 7,269 | $ 18,616 |
| Equipment, including leaseholds below | 1,037 | 1,456 | 2,493 |
| Leaseholds, net book value | 326 | 16 | 342 |
| Trademarks | 58 | - | 58 |
| Goodwill | - | 1,105 | 1,105 |

| | Three months ending September 30, 2008 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| Gross revenues | $ 10,551 | $ 12,731 | $ 23,282 |
| Intercompany eliminations | (7) | - | (7) |
| Revenues | 10,544 | 12,731 | 23,275 |
| Short term interest expense | 2 | 14 | 16 |
| Long term interest expense | 1 | 98 | 99 |
| Amortization | 139 | 556 | 695 |
| Income tax expense | 458 | 75 | 533 |
| Net earnings (loss) | 929 | (7) | 922 |
| Equipment expenditures | 39 | 4 | 43 |

| | Nine months ending September 30, 2008 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| Gross revenues | $ 32,432 | $ 39,362 | $ 71,794 |
| Intercompany eliminations | (29) | - | (29) |
| Revenues | 32,403 | 39,362 | 71,765 |
| Short term interest expense | 16 | 70 | 86 |
| Long term interest expense | 3 | 268 | 271 |
| Amortization | 413 | 1,409 | 1,822 |
| Income tax expense | 680 | 424 | 1,104 |
| Net earnings | 1,355 | 350 | 1,705 |
| Equipment expenditures | 108 | 482 | 590 |

| | As at September 30, 2008 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| Total assets | $ 6,987 | $ 12,899 | $ 19,886 |
| Equipment, including leaseholds below | 1,353 | 1,601 | 2,954 |
| Leaseholds, net book value | 488 | 104 | 592 |
| Customer Contracts | - | 84 | 84 |
| Databases | - | 37 | 37 |
| Trademarks | 66 | - | 66 |
| Goodwill | - | 1,051 | 1,051 |

| | As at December 31, 2008 | | |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| Total assets | $ 6,024 | $ 14,702 | $ 20,726 |
| 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

### Dividend

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 was $500 thousand.

## Note 17

*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 annual net earnings will be approximately $15 thousand. Accordingly, a 3% increase in the value of the Canadian dollar relative to the US dollar, the net earnings would decrease by $45 thousand.

## Interest rate risk

Debt subject to variable interest rates relates to senior debt which at September 30, 2009 totaled $316 thousand. 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 $330 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 September 30, 2009 amounted to $6,671 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 September 30, 2009 is $1,417 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 September 30, 2009 was $2,615 thousand.

## Liquidity risk

Liquidity risk is the risk of the Company's ability to meet its obligations as they come due. At September 30, 2009, the Company had net working capital of $4,481 thousand whereas the total long term debt amounted to $9 thousand, senior debt amounted to $316 thousand and the net amount owed to related party was $330 thousand. At that date, accounts receivable were $6,671 with accounts payable of $4,846 thousand. Cash and cash equivalents amounted to $2,615 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 18

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

# Corporate Information

## Board of Directors

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

David A. Winograd
President
Xentel DM Incorporated
Milwaukee, Wisconsin

Bernard Amyot
Partner
Heenan Blaikie, LLP
Montreal, Quebec

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

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

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

David A. Winograd
President
Milwaukee, Wisconsin

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

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

P. Leonard Wolstenholme
Director, Corporate Development
Calgary, Alberta

Michael T. Dodd
Director, Emerging Technologies
Calgary, Alberta

J. Caren Holtby
Investor Relations
Vancouver, British Columbia

**Auditors**
PricewaterhouseCoopers, LLP

**Transfer Agent**
Computershare Trust Company of Canada

**Legal Counsel**
Heenan Blaikie, LLP
Copilevitz & Canter, LLC
Bennett Jones, LLP

**Stock Listing**
TSX Venture Exchange
Trading symbol: XDM