

The Goldfarb Corporation

2006

Audited Financial Statements

And

Management's Discussion & Analysis

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of The Goldfarb Corporation is responsible for the accompanying financial statements and the Management's Discussion & Analysis. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgments. All financial information in Management's Discussion & Analysis included in the Annual Report is consistent with the financial statements.

Management is also responsible for a system of internal control, which is designed to provide reasonable assurance that assets are safeguarded and that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities primarily through the activities of its Audit Committee, which is composed of three outside directors. The Committee meets with management and the Corporation's independent auditors, PricewaterhouseCoopers LLP, to satisfy itself that responsibilities are properly discharged and to review the financial statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment of and for approving the remuneration and the terms of engagement of the Corporation's auditors.

The financial statements have been audited on behalf of the shareholders of the Corporation by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards and their report is presented herein.



Martin Goldfarb
President and Chief Executive Officer



Karen Killeen
Chief Financial Officer

BALANCE SHEET*As at December 31*

| | 2006 | 2005 |
|--|---------------|---------------|
| <i>(thousands of dollars)</i> | | |
| | \$ | \$ |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents <i>(note 8)</i> | 6,669 | 11,713 |
| Short-term investments | 21,871 | 17,489 |
| Accounts and other amounts receivable | 314 | 336 |
| Current portion of notes receivable <i>(note 2)</i> | 2,545 | 564 |
| Income taxes recoverable | 34 | 34 |
| Total Current Assets | 31,433 | 30,136 |
| Notes Receivable <i>(note 2)</i> | 1,692 | 13,721 |
| Capital Assets <i>(note 3)</i> | 26 | 40 |
| | 33,151 | 43,897 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 188 | 221 |
| Total Current Liabilities | 188 | 221 |
| Shareholders' Equity | | |
| Capital stock <i>(note 4)</i> | 55,736 | 55,736 |
| Contributed surplus | 453 | 453 |
| Deficit | (23,226) | (12,513) |
| Total Shareholders' Equity | 32,963 | 43,676 |
| Commitments and Contingencies <i>(note 5)</i> | | |
| | 33,151 | 43,897 |

Approved by the Board:



Martin Goldfarb, Director



Robert Sutherland, Director

STATEMENT OF INCOME (LOSS) AND DEFICIT*For the year ended December 31*

| | 2006 | 2005 |
|--|-----------------|-------------|
| <i>(thousands of dollars except per share information)</i> | | |
| | \$ | \$ |
| Interest revenue <i>(note 6)</i> | 3,043 | 1,956 |
| Administrative expenses | 1,760 | 1,529 |
| | 1,283 | 427 |
| Litigation settlement <i>(note 7)</i> | (12,000) | - |
| Depreciation | (14) | (15) |
| Foreign exchange gains (losses) | 18 | (191) |
| Net Income (Loss) | (10,713) | 221 |
| Deficit, beginning of year | (12,513) | (12,734) |
| Deficit, end of year | (23,226) | (12,513) |
| Basic and Diluted Income (Loss) per Share | (1.80) | 0.04 |

STATEMENT OF CASH FLOW
For the year ended December 31

| | 2006 | 2005 |
|---|----------------|-----------------|
| <i>(thousands of dollars)</i> | | |
| | \$ | \$ |
| Operating Activities | | |
| Income (loss) from operations | (10,713) | 221 |
| Add items not involving cash: | | |
| Depreciation | 14 | 15 |
| Foreign exchange losses (gains) | (79) | 191 |
| Loss on disposal of capital assets | - | 1 |
| | (10,778) | 428 |
| Changes in non-cash working capital balances <i>(note 8)</i> | (11) | (7) |
| Cash provided by (used in) operating activities | (10,789) | 421 |
| Investing Activities | | |
| Repayment of notes receivable | 10,048 | 2,422 |
| Redemption of short-term investments | 17,489 | - |
| Acquisition of short-term investments | (21,871) | (17,489) |
| Additions to capital assets | - | (5) |
| Cash provided by (used in) investing activities | 5,666 | (15,072) |
| Foreign exchange gain (loss) on cash held in foreign currency | 79 | (22) |
| Decrease in cash and cash equivalents for the year | (5,044) | (14,673) |
| Cash and cash equivalents, beginning of year <i>(note 8)</i> | 11,713 | 26,386 |
| Cash and cash equivalents, end of year <i>(note 8)</i> | 6,669 | 11,713 |

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005
(*thousands of dollars except per share information*)

1. Significant Accounting Policies

Translation of Foreign Currencies

Foreign currency transactions of the Corporation related to monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates; non-monetary items are translated at the historic exchange rates prevailing at the respective transaction dates. Revenues and expenses are translated at the monthly average rates prevailing throughout the year. Exchange gains and losses are reflected in the statement of income (loss) and deficit in the period in which they occur.

Cash and Cash Equivalents

Cash comprises cash and short-term investments having an original maturity of three months or less.

Notes Receivable

Notes receivable are carried at the lower of their principal amount and net realizable value. The notes are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be realizable. Interest is recognized as earned and is accrued to the extent that collectability is reasonably assured.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is as follows:

| Asset Category | Rate & Method |
|------------------------|--------------------------|
| Office equipment | 20% declining balance |
| Computer hardware | 30% declining balance |
| Leasehold improvements | Term of lease |

Use of Estimates

Financial statements prepared in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions about reported assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses. Management must also make estimates and judgements about future results of operations, related to specific elements of the business and operating units, in assessing recoverability of assets and recorded values of liabilities. Actual results could differ from those estimates.

Income Taxes

Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. These future income taxes are calculated using income tax rates and laws that are expected to apply when these differences are reflected in taxable income. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Earnings Per Share

Earnings per share have been calculated using the weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year of 5,936,660 (2005, 5,936,660) using the treasury stock method for calculating diluted earnings per share. Diluted earnings (loss) per share for the years ended December 31, 2006 and 2005 has not been adjusted since the effect of any exercise of outstanding stock options is anti-dilutive.

Financial Instruments

The CICA issued three new Handbook Sections: Section 3855 (“Financial Instruments – Recognition and Measurement”), Section 1350 (“Comprehensive Income”) and Section 3865 (“Hedges”). These standards provide guidance on the recognition, measurement and classification of financial assets and financial liabilities. These standards also provide guidance for reporting items in other comprehensive income, which will be included on the Balance Sheet as a separate component of shareholders’ equity. The new standards apply to fiscal years commencing on or after October 1, 2006. These accounting standards are not expected to have a significant effect on the Corporation’s financial results.

2. Notes Receivable

The following notes represent the Corporation’s pro-rata share (48.4%) of the promissory notes issued by SMK Speedy International Inc. (“Speedy”):

| | December 31 | |
|--------------------------------------|--------------|---------------|
| | 2006 | 2005 |
| | \$ | \$ |
| T-Note (US \$3,633; 2005-US \$4,359) | 4,237 | 5,083 |
| Acquisition Note | - | 9,202 |
| | <u>4,237</u> | <u>14,285</u> |
| Less: Amount due within one year | 2,545 | 564 |
| | <u>1,692</u> | <u>13,721</u> |

T-Note

This note has terms and conditions that match the note that Speedy received from the purchaser, Tuffy Associates Corp. (the "Purchaser"), upon the sale of its Car-X business in 2002 and is comprised of:

- a. A note in the amount of US \$1,453 bearing interest at US prime plus 3%, payable quarterly, with the principal due July 8, 2007 or at an earlier date under certain circumstances. During 2006, principal repayments of US\$242 were received.
- b. A further note in the amount of US \$2,906 bearing interest at US prime plus 2% payable quarterly, with US \$484 of principal payments due on July 8 in each of the years 2007 through 2009 with the balance of US \$969 due on July 2, 2010. During 2006, principal repayments of US \$484 were received.

These notes are collateralized by the assets of the Purchaser and its subsidiary, Car-X Associates Corp. The note bearing interest at U.S. prime plus 3% is further collateralized by a guarantee of the Purchaser. The Corporation is entitled to receive interest and principal payments only to the extent that such amounts are received from the Purchaser and has no further recourse against Speedy.

In February 2007, the Purchaser renegotiated certain terms and conditions of the note which resulted in an immediate prepayment of all principal amounts due in 2007 and 2008 plus related accrued interest (US\$2,219). The maturity date of the remaining principal of US\$1,453 is now July 8, 2009. The Purchaser has guaranteed the remaining principal balance. The noteholders have agreed to subordinate the remaining outstanding principal to new increased bank financing of the Purchaser.

Acquisition Note

The Acquisition Note was subordinate to any senior debt and was repayable over 5 years to 2009. On the \$9,202 principal amount, the total yield was 14% per annum of which 8% per annum was calculated and payable quarterly in arrears. The remaining 6% per annum accrued and compounded annually, and was due in full on the date that the promissory note was paid in full. The Corporation accrued the 6% interest and fully provided against it because of the timing of payment. The remaining \$2,422 of principal had a money market yield and was repaid in December 2005.

In November 2005 and February 2006, the Corporation and other holders of the acquisition notes approved certain amendments to the repayment terms of the notes. These amendments were requested by Speedy in order to facilitate operations of Speedy. On May 15, 2006, the note and interest was repaid. The Corporation received \$10,067 representing full and early repayment of the Acquisition Note together with accrued interest, partial deferred interest plus transaction fees. The reduction in deferred interest of \$857 was partially offset by transaction fees of \$218. No further payments will be made on the notes.

3. Capital Assets

Capital assets consist of office equipment, computer hardware and leasehold improvements and have a cost of \$83 (2005 -\$83). Net of accumulated depreciation, capital assets are \$26 (2005 - \$40).

4. Capital Stock

The Corporation's authorized capital stock is as follows:

- Unlimited number of Preference Shares, issued in series;
- Unlimited number of Class A Subordinate Voting Shares;
- 182,000 Class B Shares carrying 15 votes per share, convertible into Class A Subordinate Voting Shares on a one-for-one basis. In certain prescribed circumstances, additional Class B Shares as may be required to effect the conversion of Class A Subordinate Voting Shares into Class B Shares.

The issued share capital is summarized as follows:

| | <u>December 31</u> | |
|--|--------------------|---------------|
| | <u>2006</u> | <u>2005</u> |
| | \$ | \$ |
| 5,754,660 (2005-5,754,660) Class A Subordinate Voting Shares | 55,523 | 55,523 |
| 182,000 Class B Shares | 213 | 213 |
| | <u>55,736</u> | <u>55,736</u> |

A summary of the status of the Corporation's stock option plan as of December 31, 2006 and 2005 and changes during the years ending on those dates is presented below:

| | <u>December 31, 2006</u> | | <u>December 31, 2005</u> | |
|----------------------------------|-----------------------------|--|-----------------------------|--|
| | <u>Number of Shares</u> | <u>Weighted-Average Exercise Price</u> | <u>Number of Shares</u> | <u>Weighted-Average Exercise Price</u> |
| | | \$ | | \$ |
| Outstanding at beginning of year | 140,000 | 3.72 | 427,000 | 3.91 |
| Forfeited | - | - | (287,000) | 4.00 |
| Outstanding at end of year | <u>140,000</u> | 3.72 | <u>140,000</u> | 3.72 |
| Options exercisable at year end | <u>140,000</u> | 3.72 | <u>140,000</u> | 3.72 |

All options outstanding at December 31, 2006 have an exercise price of \$3.72 and expire on April 1, 2007.

5. Commitments and Contingencies

Operating lease obligations

The Corporation leases office space under an operating lease requiring annual payments of \$65 expiring in 2007.

Contingencies

An action was filed against the Corporation in connection with the bankruptcy of a former subsidiary of the Corporation, Fleming Packaging Corporation ("Fleming"), seeking damages arising from the February 10, 2003 amendment of Fleming's loan agreements with its bankers and the subsequent payment of \$900 to the Corporation on September 4, 2003. The claim is currently expressed in the amount of \$900 with potential additional liability undefined in the claim. Initial depositions have been completed. Mediation occurred in December 2006 without successful conclusion. The Corporation is preparing

for further depositions. The Corporation continues to be of the view that it has meritorious defences and is vigorously defending the claim.

In 2004, the Corporation received a notice of withdrawal liability assessment and demand for payment of US\$900 from the GCIU-Employer Retirement Fund in connection with the unionized employees' pension plan of Fleming. There have been no further communications since that time. The Corporation is of the view that it has meritorious defences. The Corporation will vigorously defend itself if and when required.

No amounts have been accrued in the financial statements in connection with any of the claims or possible claims.

6. Segmented Information

The Corporation's sole business segment is an investment holding company. The Corporation's operations reside entirely in Canada.

7. Litigation Settlement

In the fourth quarter of 2006, the Corporation settled the \$110 million claim that had been filed against the Corporation and certain of its officers by the purchaser of Goldfarb Consultants, the market research and consulting business sold by the Corporation in 1998. The settlement was in the amount of \$12 million. The Board of Directors of the Corporation appointed a committee of independent directors to represent the Corporation's interest in this litigation. Amongst other things, the committee has approved the payment of the settlement and applicable expenses of all defendants, being the Corporation's Chairman, Secretary, its former Executive-Vice President and its former Chief Financial Officer. The Corporation, on behalf of the defendants, is seeking reimbursement of a portion of the settlement cost from the insurer of the Corporation's directors and officers. The amount of recovery from the insurance company is not currently determinable. Any recovery will be recognized upon resolution.

8. Supplementary Cash Flow Information

a) Changes in non-cash working capital balances

| | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|
| | \$ | \$ |
| Decrease (increase) in accounts and other amounts receivable | 22 | 43 |
| Decrease in accounts payable and accrued liabilities | (33) | (50) |
| | <u>(11)</u> | <u>(7)</u> |

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and with banks, and short-term investments in highly liquid instruments with original maturities of three months or less. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|--------------|---------------|
| | \$ | \$ |
| Cash on hand and with banks | 202 | 251 |
| Short-term investments | 6,467 | 11,462 |
| | <u>6,669</u> | <u>11,713</u> |

c) Income taxes recovered

| | <u>2006</u> | <u>2005</u> |
|------------------------|-------------|-------------|
| | \$ | \$ |
| Income taxes recovered | - | - |

9. Income Taxes

At December 31, 2006, the Corporation has non-capital losses available to reduce future taxable income of approximately \$6.2 million. These non-capital losses begin to expire in 2009. At December 31, 2006, the Corporation has capital losses available to offset future capital gains of approximately \$27.0 million. These capital losses do not expire.

10. Financial Instruments

The carrying values reported in the balance sheet for cash and cash equivalents, short term investments, accounts and other amounts receivable and accounts payable and accrued liabilities approximate fair values due to the short maturity of those instruments. The carrying value of the T-note approximates fair value because the interest rates on this instrument changes with market interest rates.

11. Related Party Transactions

The Corporation shares office space and related costs with a company related to the Secretary of the Corporation. In 2006, the Corporation paid \$75 (2005 - \$78) of these expenses. The related company paid \$26 of these expenses in 2006 (2005 - \$29). At December 31, 2006, \$35 (2005 - \$8) was outstanding which was repaid to the Corporation in 2007.

12. Subsequent Event

Certain terms and conditions of the T-Note receivable were renegotiated in February 2007 as further described in Note 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

For the Year Ended December 31, 2006

OVERVIEW

The Goldfarb Corporation (the "Corporation") is an investment holding company. The Corporation's Class A Subordinate Voting Shares are traded on the NEX Board of the TSX Venture Exchange under the symbol GDF.H.

The following discussion and analysis of the financial condition of the Corporation and the results of its operations for the two years ended December 31, 2006 and 2005 are the views of management and should be read in conjunction with the Corporation's Financial Statements and Accompanying Notes. This commentary is current as of March 5, 2007. Additional information about The Goldfarb Corporation filed with Canadian securities regulatory authorities, including periodic quarterly and annual reports and the Annual Information Form, are available on-line at www.sedar.com.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place controls and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. The Corporation's Audit Committee and Board of Directors also provide an oversight role with respect to all public financial disclosures made by the Corporation and have reviewed and approved this MD&A and the financial statements for the years ended December 31, 2006 and 2005.

Disclosure controls and procedures

Pursuant to Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the Corporation has established and maintains disclosure controls and procedures over financial reporting. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls as at December 31, 2006. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Corporation has been made known to them by others within the Corporation to allow for accurate and complete disclosure in annual filings.

Internal controls over financial reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). Management's documentation and assessment of the design of the Corporation's internal

controls over financial reporting is underway as of the date of this MD&A with a focus on processes and controls in areas identified as being “key risk areas.” Management has identified certain areas where it can enhance process controls and intends to incorporate such enhancements into the internal controls over financial reporting over the next twelve months. The Corporation employs entity level controls to compensate for any deficiencies that may exist. As of the date of this MD&A, the certifying officers have designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The certifying officers have evaluated whether there were any changes to the Corporation’s internal controls over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting. No such changes were identified through their evaluation.

RESULTS OF OPERATIONS

Interest Revenue

The Corporation’s revenues for the year ended December 31, 2006 were \$3,043,000, up \$1,087,000 from \$1,956,000 in 2005 and \$1,707,000 in 2004. Revenues from operations consist solely of interest income earned on short-term investments and notes receivable. The significant increase in 2006 revenues is attributable to the receipt in the second quarter of deferred interest of \$725,000 in connection with the early repayment of the acquisition note receivable from SMK Speedy International Inc. (“Speedy”). The 2006 increase is also attributable to higher interest rates prevailing through 2006 and higher cash balances on hand during the year.

Revenues in the fourth quarter of 2006 were \$559,000, up \$11,000 from \$548,000 in the fourth quarter of 2005. The increase reflects the higher cash balances on hand during the quarter.

Revenue increases over 2005 are also as a result of increases in both Canadian and United States interest rates and higher cash balances.

Administrative Expenses

Administrative expenses from operations for the year ended December 31, 2006 were \$1,760,000 compared to \$1,529,000 in 2005. The increase relates to higher professional fees and insurance premiums incurred in 2006 offset by lower capital taxes. For the fourth quarter of 2006, administrative expenses were \$157,000 compared to \$614,000 in 2005. Increased insurance premiums offset by legal expense reimbursements account for the fourth quarter decrease.

For the year ended December 31, 2006, the foreign exchange gain was \$18,000 compared to a foreign exchange loss of \$191,000 in 2005. The foreign exchange gain for the fourth quarter of 2006 was \$239,000 compared to a loss of \$31,000 in the fourth quarter of 2005. Foreign exchange gains and losses arise

from the conversion to Canadian dollars of the Corporation's U.S. dollar denominated cash and short-term investments and the notes receivable.

Litigation Settlement

In the fourth quarter of 2006, the Corporation settled the \$110 million claim that had been filed against the Corporation and certain of its officers by the purchaser of Goldfarb Consultants, the market research and consulting business sold by the Corporation in 1998. The settlement was in the amount of \$12 million. The Board of Directors of the Corporation appointed a committee of independent directors to represent the Corporation's interest in this litigation. Amongst other things, the committee has approved the payment of the settlement and applicable expenses of all defendants, being the Corporation's Chairman, Secretary, its former Executive Vice-President and its former Chief Financial Officer. The Corporation, on behalf of the defendants, is seeking reimbursement of a portion of the settlement cost from the insurer of the Corporation's directors and officers. The amount of recovery from the insurance company is not currently determinable. Any recovery will be recognized upon resolution.

Net Income (Loss)

The net loss for The Goldfarb Corporation for 2006 was \$10,713,000 or \$1.80 per share compared to net income of \$221,000 or \$0.04 per share in 2005 and a net loss of \$414,000 (\$0.07 per share) in 2004. Discontinued operations relating to Speedy did not have any impact on net income in 2005. The 2004 net loss was comprised of losses from continuing operations and discontinued operations of \$275,000 (0.05 per share) and \$139,000 (\$0.02 per share), respectively. The 2006 net loss was attributable to the settlement cost arising from litigation offset by interest revenues. The 2005 net income was attributable to interest income offset by unrealized foreign exchange losses on notes and cash denominated in United States dollars.

The net loss for the Corporation in the fourth quarter of 2006 was \$11,362,000 or \$1.91 per share compared to a net loss of \$101,000 or \$0.01 per share in the fourth quarter of 2005.

The impact of any exercise of outstanding stock options was anti-dilutive for 2006, 2005 and 2004.

FINANCIAL POSITION

The Corporation had no long-term debt or off-balance sheet arrangements at December 31, 2006 and 2005.

Shareholders' equity of the Corporation at December 31, 2006 was \$33.0 million compared to \$43.7 million at December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation had working capital of \$31.0 million at December 31, 2006 compared to \$29.9 million at December 31, 2005.

Cash used in 2006 operations was \$10,789,000 compared to cash provided of \$421,000 in 2005. The 2006 use of cash was primarily attributable to the settlement of the outstanding litigation claim. For the year ended December 31, 2006, cash flow used in operating activities, prior to working capital changes, was an outflow of \$10,778,000 compared to cash provided of \$428,000 in 2005. Changes in non-cash working capital balances in 2006 resulted in a use of \$11,000 compared to a use of \$7,000 in 2005.

No cash flow was provided or used in financing activities in 2006 and 2005.

Cash flow provided by the Corporation's 2006 investing activities was \$5,666,000 compared to cash flow used of \$15,072,000 in 2005. The inflow in 2006 was comprised of short-term investments acquired (\$21,871,000) offset by short-term investments redemptions (\$17,489,000) and repayments of notes receivable (\$10,048,000). The outflow in 2005 included the acquisition of short-term investments of \$17,489,000 offset by \$2,422,000 received from the repayment of notes receivable.

The Corporation has a contractual obligation relating to its office lease, which requires annual payments of \$65,000 and expires in 2007.

RELATED PARTY TRANSACTIONS

The Corporation shares office space and related costs with a company related to the Secretary of the Corporation. In 2006, the Corporation paid \$75 (2005 - \$78) of these expenses of which \$26 (2005 -\$29) was recovered from the related company.

RISKS AND RISK MANAGEMENT

The Corporation is subject to risks in the areas of foreign exchange, collectibility of the notes receivable and litigation.

Foreign Exchange Rates

The Corporation's financial statements are reported in Canadian dollars and are subject to fluctuations in exchange rates of the Canadian dollar with the U.S. dollar. The Corporation's exposure to foreign currency is limited to the U.S. dollar denominated notes receivable and its U.S. dollar denominated short-term investments.

Collectibility of Notes Receivable

The collectibility of the Speedy T-note is dependent on the ability of the note issuer, Tuffy Associates Corp. ("Tuffy") to pay. Through the term of the note, Tuffy has met all its payment obligations and made early partial repayments of principal in 2006. In February 2007, Tuffy renegotiated certain terms and conditions of the note which resulted in a further early repayment of all principal amounts due in 2007 and 2008 plus related accrued interest (US\$ 2,219). The maturity date of the remaining principal of US\$ 1,453 has advanced to July 8, 2009. The noteholders have agreed to subordinate the remaining outstanding principal to new increased bank financing of Tuffy. Because Tuffy is a private company, there is limited financial information available to the noteholders to evaluate Tuffy's financial position.

Litigation

An action was filed against the Corporation by the Trustee in bankruptcy in connection with the bankruptcy of a former subsidiary of the Corporation, Fleming Packaging Corporation ("Fleming"), seeking damages arising from the February 10, 2003 amendment of Fleming's loan agreements with its bankers and the subsequent payment of \$0.9 million to the Corporation on September 4, 2003. The claim is currently expressed in the amount of \$0.9 million with potential additional liability undefined in the claim. Initial depositions have been completed. Mediation occurred in December 2006 without successful conclusion. The Corporation is preparing for further depositions. The Corporation continues to be of the view that it has meritorious defenses and is vigorously defending the claim.

In 2004, the Corporation received a notice of withdrawal liability assessment and demand for payment of US\$0.9 million from the GCIU-Employer Retirement Fund in connection with the unionized employees' pension plan of Fleming. There have been no further communications since that time. The Corporation is of the view that it has meritorious defenses. The Corporation will vigorously defend itself if and when required.

The Corporation has paid all expenses incurred in defending itself in connection with these contingencies. These expenses are recognized as incurred.

OUTLOOK

Since the sale of Speedy, the Board of Directors of the Corporation has been evaluating the various alternatives for the use of the cash proceeds from the transaction, including determining the cash available for distribution. Before making any distribution of the proceeds, the Board will assess the possible impact of currently outstanding claims. Additionally, the Board will assess potential claims that may be made against the Corporation arising from the bankruptcy of Fleming. The Board will also consider alternative methods of effecting a tax efficient distribution of the proceeds prior to making such a distribution.

SELECTED ANNUAL INFORMATION

(thousands of dollars, except per share information)

| | 2006 | 2005 | 2004 |
|---------------------------------------|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| Operating Results | | | |
| Revenues from operations | 3,043 | 1,956 | 1,707 |
| Net income (loss) | (10,713) | 221 | (275) |
| Net income (loss) per share | (1.80) | 0.04 | (0.07) |
| | | | |
| Financial Position | | | |
| Total Assets | 33,151 | 43,897 | 43,726 |
| Total long-term financial liabilities | - | - | - |

FINANCIAL DATA FOR THE LAST EIGHT QUARTERS

(unaudited)(thousands of dollars except per share information)

The following table presents the Corporation's quarterly results of operations for each of the last eight quarters. This data has been derived from the Corporation's unaudited financial statements, which were prepared on the same basis as the annual audited financial statements and, in the Corporation's opinion, include all adjustments necessary, consisting solely of normal recurring adjustments, for fair presentation of such information. These unaudited quarterly results should be read in conjunction with the Corporation's audited financial statements for the years ended December 31, 2006 and 2005.

| Quarter ended (1) (2) | Revenues | Net Income (loss) | Per share |
|----------------------------------|-----------------|----------------------------------|------------------|
| | \$ | \$ | \$ |
| 2006 | | | |
| December 31 | 559 | (11,362) | (1.91) |
| September 30 | 487 | (158) | (0.03) |
| June 30 | 1,435 | 674 | 0.12 |
| March 31 | 562 | 133 | 0.02 |
| 2005 | | | |
| December 31 | 548 | (101) | (0.01) |
| September 30 | 480 | (132) | (0.03) |
| June 30 | 473 | 140 | 0.03 |
| March 31 | 455 | 314 | 0.05 |

Notes:

- (1) For each of the last eight quarters there have been no extraordinary items reported.
- (2) Comparative amounts have been reclassified to conform with the presentation in the current year.

Note: *Certain statements in this Management's Discussion and Analysis are "forward-looking statements" which reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements can be identified by the use of words such as "expects", "plans", "will", "believes", "estimates", "intends", "may", "bodes", and other words of similar meaning. Should known or unknown risks or uncertainties materialize, or should management's assumptions prove inaccurate, actual results could vary materially from those anticipated. Many factors could cause results to differ materially from the results discussed in the forward-looking statements, including risks related to dependence on key suppliers, economic conditions, competition, regulatory change, foreign exchange rates, interest rates, among others. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Corporation does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities law.*