

**EMPIRICAL INC.**  
**(formerly True North Corporation)**  
**Consolidated Financial Statements**  
**December 31, 2007**

**EMPIRICAL INC.**

**INDEX**

**December 31, 2007**

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April 28, 2008

## **Auditors' Report**

### **To the Shareholders of Empirical Inc.**

We have audited the consolidated balance sheet of **Empirical Inc.** as at December 31, 2007 and the consolidated statements of deficit, operations and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of the Company as at December 31, 2006 and for the year then ended were audited by other independent accountants whose report dated May 11, 2007, except as to notes 10 and 20 (d), which are as of May 22, 2007, expressed an unqualified opinion.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

**EMPIRICAL INC.** (formerly True North Corporation)  
**Consolidated Balance Sheets**  
**As at December 31, 2007 and December 31, 2006**

	<b>Dec 31 2007</b>	<b>Dec 31 2006</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 459,822	\$ 95,435
Short-term investments	20,000	352,383
Accounts receivable	1,171,265	2,564,089
Work in progress	296,227	227,796
Income taxes recoverable	-	20,620
Prepaid expenses	347,310	164,483
	<hr/> 2,294,624	<hr/> 3,424,806
<b>Other</b>		
Property and equipment (note 4)	542,385	824,925
Intangible assets (note 5)	1,490,076	3,225,256
	<hr/> \$ 4,327,085	<hr/> \$ 7,474,987

**EMPIRICAL INC.** (formerly True North Corporation)  
**Consolidated Balance Sheets**  
**As at December 31, 2007 and December 31, 2006**

	<b>Dec 31 2007</b>	<b>Dec 31 2006</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness (note 6)	\$ -	\$ 1,092,847
Operating line of credit (note 7)	651,770	-
Accounts payable and accrued liabilities	2,939,555	3,596,070
Deferred revenue	550,896	861,163
Due to related parties (note 11)	37,749	61,310
Current portion, capital leases (note 8)	1,329	17,007
Debentures (note 10)	2,010,934	-
Promissory notes payable (note 9)	557,033	285,000
	<b>6,749,266</b>	<b>5,913,397</b>
<b>LONG TERM</b>		
Debentures (note 10)	4,448,699	3,773,296
Capital leases (note 8)	-	1,329
	<b>4,448,699</b>	<b>3,774,625</b>
	<b>11,197,965</b>	<b>9,688,022</b>
<b>SHAREHOLDERS' DEFICIT</b>		
<b>SHARE CAPITAL</b> (note 12)	4,871,387	4,850,387
<b>EQUITY COMPONENT OF DEBENTURES</b> (note 10)	1,094,159	290,120
<b>CONTRIBUTED SURPLUS</b> (note 12)	951,003	507,510
<b>(DEFICIT)</b>	<b>(13,787,429)</b>	<b>(7,861,052)</b>
	<b>(6,870,880)</b>	<b>(2,213,035)</b>
	<b>\$ 4,327,085</b>	<b>\$ 7,474,987</b>

Going Concern (note 1)

Commitments, Contingencies and Subsequent Events (notes 17, 20, 24)

Approved on behalf of the Board:

'Michael Goffin' - Director

'Ian McKinnon' - Director

**EMPIRICAL INC.** (formerly True North Corporation)  
**Consolidated Statements of Deficit**  
**For the Years Ended December 31, 2007 and 2006**

	<b>Dec 31</b>	<b>Dec 31</b>
	<b>2007</b>	<b>2006</b>
<b>DEFICIT</b> , beginning of period	(\$7,861,052)	(\$1,938,667)
<b>NET LOSS FOR THE PERIOD</b>	(5,926,377)	(5,922,385)
<b>DEFICIT</b> , end of period	(\$13,787,429)	(\$7,861,052)

**EMPIRICAL INC.** (formerly True North Corporation)  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2007 and 2006**

	<b>Dec 31 2007</b>	<b>Dec 31 2006</b>
<b>REVENUE</b>	\$ 10,016,789	\$ 10,669,736
<b>DIRECT COSTS</b>	3,458,634	5,364,828
<b>GROSS PROFIT</b>	6,558,155	5,304,908
Selling, administrative and general expenses	7,916,138	7,256,003
	(1,357,983)	(1,951,095)
Amortization of property and equipment	293,422	169,396
Amortization of intangible assets	1,735,180	297,352
Interest and transaction costs (note 13)	802,018	352,968
Interest on long-term debt	479,650	224,361
Other expenses (note 14)	872,381	1,536,943
Write down of intangible assets	-	1,312,011
Stock-based compensation (note 12(c), (d))	385,743	78,259
	4,568,394	3,971,290
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	(\$5,926,377)	(\$5,922,385)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	(\$0 .12)	(\$0.23)
<b>AVERAGE NUMBER OF SHARES OUTSTANDING</b>	49,531,413	25,216,087

**EMPIRICAL INC.** (formerly True North Corporation)  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2007 and 2006**

	Dec 31 2007	Dec 31 2006
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(\$5,926,377)	(\$5,922,385)
Items not involving cash:		
Amortization of capital assets	293,422	169,396
Amortization of intangible assets	1,735,180	297,352
Amortization of debt financing costs	-	139,128
Write-down of loan receivable	-	910,734
Write-down of intangible assets	-	1,312,011
Accretion expense on debentures	202,356	13,413
Stock-based compensation expense	385,743	78,259
Loss on sublet	-	185,000
Loss on extinguishment of debt	435,085	441,209
	(2,874,591)	(2,375,883)
Changes in non-cash working capital items (note 16)	195,404	1,485,593
Cash used in operating activities	(2,679,187)	(890,290)
<b>FINANCING ACTIVITIES</b>		
Repayments under bank indebtedness – net	(1,092,847)	(221,355)
Proceeds from operating line of credit	651,770	-
Proceeds from debentures	3,387,718	250,000
Repayment of promissory notes payable	(205,000)	-
Repayments of amounts due to related parties – net	(23,561)	21,865
Repayment of obligation under capital leases	(17,007)	(4,512)
Proceeds from exercise of options	21,000	-
Proceeds from issue of common shares	-	504,000
Share issue costs	-	(42,795)
Cash provided by financing activities	2,722,073	507,203
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(10,882)	(30,340)
Business Acquisition - net	-	50,966
Redemption of short-term investments – net	332,383	553,932
Acquisition of intangible assets	-	(240,409)
Cash provided by investing activities	321,501	334,149
<b>INCREASE (DECREASE) IN CASH</b>	364,387	(48,938)
<b>CASH, BEGINNING OF PERIOD</b>	95,435	144,373
<b>CASH, END OF PERIOD</b>	\$459,822	\$95,435

**EMPIRICAL INC. (formerly True North Corporation)**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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1. **BACKGROUND INFORMATION**

*Nature of Operations*

Empirical Inc. is an outsourced marketing services organization that provides sales, marketing and advertising agency services to numerous clients across a wide spectrum of industries including a fully integrated online marketing solution using its suite of promotions products.

The Company changed its name to Empirical Inc effective November 30, 2007. It was previously named True North Corporation.

*Going Concern*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize on its assets and satisfy its obligations as they become due in the normal course of operations. The Company recorded net losses during the past two years and has a working capital deficiency at December 31, 2007. These adverse circumstances cast substantial doubt as to the validity of the going concern assumption. The Company's ability to continue as a going concern is dependent on the successful execution of management's business plan, which includes the Company receiving the continued support of its lenders and other creditors, its ability to secure additional financing and to generate future positive cash flows. While the Company was successful in issuing a \$1.1 million convertible secured debenture to Quorum Investment Pool Limited Partnership ("QIP") on December 27, 2007 (Note 10) and \$640,000 of additional convertible secured debentures subsequent to year end (Note 24), there is no assurance that management will be successful in continuing to receive the support of its lenders, securing additional financing or attaining positive cash flows from operations. These financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, reported income and expenses and in the balance sheet classifications used. Such adjustments could be material.

2. **CHANGES IN ACCOUNTING POLICIES**

As required by the Canadian Institute of Chartered Accountants (CICA), on January 1, 2007, the Company adopted CICA Handbook Sections 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments. The financial statements for periods prior to January 1, 2007 were not restated for these changes. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

**a) Section 1530- Comprehensive Income**

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income (OCI). OCI is a new requirement to temporarily present certain gains and losses from changes in fair value outside of net income. The Company did not have OCI during the year ended December 31, 2007 and its comprehensive loss consisted of its loss.

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**b) Section 3251, Equity**

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a new category of equity on the consolidated balance sheet. The Company did not have a balance of AOCI at December 31, 2007.

**c) Section 3855, Financial Instruments – Recognition and Measurement**  
**Section 3861, Financial Instruments – Disclosure and Presentation**

Under the new standards, all financial instruments are classified into the following categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other liabilities. All financial instruments within the scope of the standard are included in the consolidated financial statements and are initially measured at fair value. Subsequently, all financial instruments are re-measured to fair value at each reporting period except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Held for trading financial investments are subsequently measured at fair value and all gains and losses as a result of measurement are included in net income in the period in which they arise. Available for sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or the impairment of the financial asset is other than temporary.

**Classification of financial instruments**

The Company has adopted the following classification for financial assets and financial liabilities:

Cash is classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.

Short-term investments are classified as held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. The Company has the intention and ability to hold these securities to maturity.

Accounts receivable are classified as loans and receivables, which are measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method.

Debentures, promissory notes payable and borrowings under the operating line of credit are classified as other financial liabilities and recorded at amortized cost using the effective interest method.

Transaction costs are recognized immediately in net income. Prior to implementation of Section 3855 on January 1, 2007, transaction costs in respect of the issue of debt instruments were deferred and amortized to earnings over the term of the related debt financing. Since the implementation of Section 3855 on January 1, 2007, transaction costs are recognized in net

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income. Under the new standards, policies followed prior to the effective date generally are not changed and, therefore the comparative figures have not been restated. There were no unamortized transaction costs at December 31, 2006 and hence all transaction costs reported for the year ended December 31, 2007 as set out in Note 13 - Interest and Transaction costs represent transaction costs during the year. Transaction costs reported for the year ended December 31, 2006 as set out in Note 13 - Interest and Transaction costs represent amortization of transaction costs incurred in respect of previously issued debt instruments.

**Determination of fair value**

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held or a financial liability to be issued and current offering price for financial assets to be acquired or financial liabilities held. When quoted active market prices are not available, fair values are determined by using valuation techniques which incorporate observable market data. These include comparisons with similar instruments where current market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as risk-free interest rates, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

The carrying value of short-term investments and accounts payable and accrued liabilities approximates their fair value given their short-term nature. The carrying value of borrowings under the operating line of credit, debentures and promissory notes approximates fair value. The fair value is estimated by discounting future cash flows, including interest payments, using rates currently available for debt of similar terms and maturity.

*Credit Risk* – The Company is exposed to credit risk, primarily in relation to accounts receivable. Exposure to credit risk varies due to the composition of individual customer balances. The Company reviews the credit history of significant new customers and performs regular monitoring of overdue customer balances and provides allowances for potentially uncollectible accounts receivable.

*Interest Rate Risk* – The Company is exposed to interest rate risk on its operating line of credit based on fluctuations in prime rates.

**Derivatives**

Under Section 3855, derivatives are carried at fair value and are reported as financial assets when the Company has a contractual right to receive cash or another financial asset from a counterparty or exchange financial instruments with a counterparty under conditions that are potentially favourable to the Company and as financial liabilities where the Company has a contractual obligation to deliver cash or another financial asset to a counterparty or to exchange financial instruments with a counterparty that are potentially unfavourable to the Company. The changes in fair value during the period are recorded in earnings. At December 31, 2006 and 2007, the Company did not have any derivatives outstanding.

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**d) Section 3865, Hedges**

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The Company did not apply hedge accounting during the year ended December 31, 2007.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

**(a) *Basis of Presentation***

These consolidated financial statements present the accounts of Empirical Inc. and its wholly-owned subsidiaries: Ross David Smith Enterprises Ltd.; TNAG True North Advertising Group Inc.; Empirical Corp (formerly Essentia Marketing Inc); Artshouse Communications Inc; AVP Event Marketing Inc.; C3 Online Marketing Inc and 1269483 Ontario Limited. During the 2007 fiscal year, Empirical Inc.'s wholly owned subsidiary, Empirical Research & Development Ltd. was dissolved. (The consolidated entities are hereafter referred to as "the Company.") All significant intercompany accounts and transactions have been eliminated.

**(b) *Use of estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes.

Although these estimates are based on management's best knowledge of current events, actual results could differ from these estimates.

**(c) *Revenue recognition and work in progress***

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable and collectibility is probable.

Traditional marketing service revenues from creative and design services, event and project management are recognized on a completed contract basis. Consulting services provided in conjunction with creative and design services, event and project management, generally do not have stand-alone value to a customer and are therefore recognized at the same time as the project to which they are tied on a completed contract basis. Call centre services and fulfillment and distribution services are recognized as services are rendered. Work in progress is recorded at the lower of cost and net realizable value. Cost is calculated as the sum of billable hours at standard cost rates plus material costs for projects in progress.

Marketing service revenues earned from the Company's eMarketing suite of promotions products include hosting fees, implementation fees, subscription fees, software license fees and domain registration fees.

(i) Hosting fees are generated from hosting computer hardware and software operations of customers' applications. Hosting fees are billed in advance and revenue is recognized when the service has been provided, on a monthly basis.

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- (ii) Implementation fees are generated from implementation services provided to customers in the set-up and management of purchased software. Assistance in running contests is also offered when requested. Implementation fees are recognized as the services are provided.
- (iii) Subscription fees are generated from software licensing arrangements. The license arrangements do not provide for the right of return and are offered on a subscription basis. Subscription fees are billed annually and revenue is recognized monthly.
- (iv) Software license fees are generated from software licensing arrangements. The license arrangements do not provide for the right of return and are offered on a perpetual basis. Revenue from software license arrangement is recognized when the software products or services have been delivered to the customer. Delivery is considered to have occurred when electronic delivery of the software has occurred.
- (v) Domain registration fees are generated from the sale of domain URLs and SSLs. Domain registration fees are billed and revenue is recognized upon purchase.

(d) ***Property and equipment***

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets using the following annual rates and methods:

Computer software	1 to 2 years straight line
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	straight line over life of lease
Machinery and equipment	20% declining balance
Office equipment	20% declining balance

(e) ***Leases***

Leases entered into by the Company as a lessee are classified as capital or operating leases. Leases that transfer substantially the entire risks and benefits incidental to ownership are classified as capital leases. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value at the beginning of each lease. Rental payments under operating leases are expensed as incurred.

(f) ***Deferred revenue***

Funds received from customers in advance of delivery of services are recorded as deferred revenue until the corresponding project has been completed.

(g) ***Income taxes***

The company utilizes the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined on temporary differences, and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and

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**Notes to the Consolidated Financial Statements**  
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liabilities.

(h) ***Earnings per share***

Basic earnings per share are computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Fully diluted earnings per share are computed using the treasury stock method.

(i) ***Intangible assets***

Intangible assets consist of software acquired on the acquisition of C3 Online Marketing Inc. on November 10, 2006, and customer lists.

i) Software

Acquired software is amortized on a straight line basis over its estimated useful life to a maximum of two years from the date of acquisition.

ii) Customer Lists

Amortization is provided over a ten-year term on a straight line basis. In fiscal 2006, due to declining revenues, the Company wrote down customer lists to a nominal value.

(j) ***Stock-based compensation***

Stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting. This method requires the estimated fair value of the stock-based compensation to be recognized in earnings. Grants of stock options to employees are recognized in earnings as compensation expense, based on the estimated fair value at the date of the grant, over the corresponding vesting period.

(k) ***Foreign currency translation***

Monetary assets and liabilities of the Company arising in foreign currencies are translated at exchange rates prevailing at the balance sheet date. All other assets, liabilities, revenues and expenses arising in foreign currencies are translated at the exchange rates prevailing at the dates of transactions. The resulting gains or losses on foreign exchange are included in the results of operations for the year.

(m) ***Asset impairment***

Management reviews the carrying amount of property and equipment and intangible assets with finite lives when events or circumstances indicate that the carrying amount may not be recoverable. This evaluation is based on projections of future undiscounted cash flows. The total of these projected net cash flows is referred to as the "net recoverable amount." If the net recoverable amount is less than carrying value, the asset is written down to fair value.

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**Recent Accounting Pronouncements**

In March 2007, the CICA issued Section 3031, "Inventories", which has replaced Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The final standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company's first quarter of fiscal 2008. The Company does not expect the new standard to have a material impact on its financial statements.

In December 2006, CICA issued Section 1535 "Capital Disclosures," which establishes the standards for disclosing information about an entity's capital and how it is managed. CICA Section 1535 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt this new standard effective January 1, 2008 and is assessing the impact of this new standard on its consolidated financial statements.

In December 2006, the CICA issued Section 3862, "Financial Instruments - Disclosures," and Section 3863 "Financial Instruments – Presentation". These standards enhance existing disclosures in previously issued Section 3861. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Company will adopt this new standard effective January 1, 2008 and is assessing the impact of this new standard on its consolidated financial statements.

In May 2007, the Accounting Standards Board ("AcSB") amended Section 1400, "General Standards of Financial Statement Presentation," to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments are effective for the Company for annual periods beginning after January 1, 2008. These standards will impact disclosure provided by the Company, but the Company does not expect the adoption of this guidance to have a material impact on its financial position, results of operations or cash flows.

In February 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", which replaces the existing Sections 3064 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs." The new standard introduces changes to the recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Company is currently assessing the impact of this standard may have on its financial positions, results of operations or cash flow.

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4. **PROPERTY AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2007 Net Book Value</b>	<b>2006 Net Book Value</b>
Computer software	\$ 146,834	\$ 128,317	\$ 18,517	\$ 87,549
Computer equipment	525,552	253,413	272,139	373,135
Furniture and fixtures	326,091	198,316	127,775	159,487
Leasehold improvements	36,578	28,394	8,184	9,276
Machinery and equipment	427,212	353,631	73,581	142,721
Office equipment	<u>113,290</u>	<u>71,101</u>	<u>42,189</u>	<u>52,757</u>
	<u>\$1,575,557</u>	<u>\$1,033,172</u>	<u>\$ 542,385</u>	<u>\$ 824,925</u>

5. **INTANGIBLE ASSETS**

	<b>2007</b>	<b>2006</b>
Net book value – beginning of period	\$3,225,256	\$1,364,260
Acquisitions during the year		
- software	-	3,229,951
- other	-	240,409
	3,225,256	4,834,620
Asset impairment	-	(1,312,011)
Amortization	<u>(1,735,180)</u>	<u>(297,353)</u>
Net book value – end of period	<u>\$1,490,076</u>	<u>\$3,225,256</u>

6. **BANK INDEBTEDNESS**

On April 10, 2007, the Company repaid its \$1,250,000 demand credit facility with the Royal Bank of Canada and discharged the Bank's security interests with the proceeds from a new revolving credit facility (note 7).

7. **OPERATING LINE OF CREDIT**

On April 10, 2007, the Company entered into a renewable, one-year revolving operating line of credit arrangement with Greenfield Commercial Credit comprising a facility in the amount of \$1,450,000 and a further facility in the amount of \$300,000, which reduces by \$12,500 per month. At December 31, 2007, the total facility was \$1,675,000. Draws against the first facility may not exceed the lesser of \$1,450,000 and 85% of eligible receivables. Draws against the second facility may not exceed the lesser of the facility ceiling (\$225,000 at December 31, 2007) and 100% of eligible receivables. The interest rate on these instruments is prime plus 8% per annum, payable monthly. The facilities are secured by a General Security Agreement over the assets of the Company and a postponement of loans by related parties. Transaction fees of \$125,238 were paid to secure these facilities and have been expensed.

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8. **CAPITAL LEASES**

	2007	2006
Capital lease obligations for computer equipment, bearing interest at an average rate of approximately 10% repayable in monthly payments of \$525 secured by the related equipment and maturing from Sept 2007 to February 2008	\$ 1,329	\$ 18,336
Less: Current portion	<u>1,329</u>	<u>17,007</u>
	<u>\$ -</u>	<u>\$ 1,329</u>

The future minimum lease payments for capital leases are \$1,362 payable in 2008, including interest of \$33.

9. **PROMISSORY NOTES**

	2007	2006
Unsecured promissory note due to an unrelated individual	\$ 80,000	\$ 285,000
Secured, non-interest bearing promissory note	<u>477,033</u>	<u>-</u>
	557,033	285,000
Less: Current portion	<u>557,033</u>	<u>285,000</u>
	<u>\$ -</u>	<u>\$ -</u>

***Unsecured promissory note due to an unrelated individual***

Under an Amended and Restated Loan Agreement signed on May 7, 2007, the terms of the promissory note include interest at 10% per annum (previously 8%), payable monthly; principal repayments of \$20,000 per month from May 15, 2007 to April 15, 2008, with an initial payment of \$45,000 upon signing; and, subordination and postponement of claim in favor of QIP under its convertible secured debenture arrangements with the Company (See note 10). The holder of the promissory note is entitled to receive payment on account of its indebtedness until such time as a notice of default has been given to the holder by QIP.

Prior to the amendment and restatement of its loan agreement with the holder of the promissory note, the Company had been in default on the original promissory note for failure to repay the \$285,000 of principal on the original maturity date of March 15, 2007.

***Secured, non-interest bearing promissory note (face value \$500,000)***

On May 22, 2007, in conjunction with the amendment of its three existing convertible secured debentures agreements issued by the Company to QIP, Quorum Secured Equity Trust ("QSET") and Ontario SME Capital Corporation ("SME") and the issue of a new \$1,700,000 convertible secured debenture to QIP (See note 10(d)), the Company issued a secured, non-interest bearing promissory note with a face value of \$500,000 to SME payable on April 30, 2008 in either cash or common shares of the Company, at the option of the holder. The note is secured by subordinated fixed and floating mortgages and charges on the Company's assets. The note was originally recorded at its estimated fair value of \$435,085 using a 16% effective interest rate that discounts the estimated future cash payments through the expected life of the promissory note.

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10. **DEBENTURES**

	<u>2007</u>	<u>2006</u>
(a) Convertible secured debenture with a face value of \$1,435,185 bearing interest at a rate of 8% per annum calculated and payable quarterly in arrears maturing December 15, 2009	\$ 1,435,185	\$1,435,185
(b) Convertible secured debenture with a face value of \$1,225,926 bearing interest at a rate of 8% per annum calculated and payable quarterly in arrears maturing January 4, 2008	1,225,128	1,174,324
(c) Convertible secured debenture with a face value of \$1,388,889 bearing interest at a rate of 8% per annum calculated and payable quarterly in arrears maturing March 17, 2011	1,217,101	1,163,787
(d) Convertible secured debenture with a face value of \$1,700,000 bearing interest at a rate of 8% per annum calculated and payable quarterly in arrears maturing May 22, 2011	1,266,413	-
(e) Convertible secured debenture with a face value of \$1,107,693 bearing interest at a rate of 8% per annum calculated monthly and payable quarterly in arrears, maturing December 27, 2008	785,806	-
(f) Secured term debenture with a face value of \$250,000 bearing interest at a rate of 10% per annum calculated monthly and payable quarterly in arrears, maturing March 27, 2009	250,000	-
(g) Secured term debenture with a face value of \$280,000 bearing interest at a rate of 10% per annum calculated monthly and payable quarterly in arrears, maturing March 9, 2009	280,000	-
	<u>6,459,633</u>	<u>3,773,296</u>
Less: Current portion	2,010,934	-
	<u>\$ 4,448,699</u>	<u>\$ 3,773,296</u>

All seven of the debentures are secured by subordinated fixed and floating mortgages and charges on the Company's assets and rank *pari passu*.

At December 31, 2006, and through May 2007, the Company was in default of its three then outstanding convertible secured debentures ((a), (b) and (c)) previously issued by the Company to QIP, QSET and SME due to a breach of financial covenants as well as a failure to make interest payments when due. In May 2007, QIP, QSET and SME waived these defaults and amended certain financial covenants of the outstanding debentures upon the receipt of unpaid interest and the additional financing from QIP (d) (the Financing).

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***(a) 8% convertible secured debenture with a face value of \$1,435,185 issued to QSET***

The principal amount of the debenture is convertible to common shares of the Company at the holder's option at (i) \$0.20 to May 21, 2009; (ii) \$0.22 from May 22, 2009 to December 15, 2009. The conversion price will automatically increase to \$0.25 per share upon the filing of audited annual financial statements which disclose revenues of \$25,000,000 or "EBITDA," as defined in the amended debenture agreement, of at least \$4,000,000. In connection with the Financing, the Company and QSET amended the terms of the convertible debenture to reduce the conversion price from \$0.35 per share to the amounts shown above.

***(b) 8% convertible secured debenture with a face value of \$1,225,926 issued to Ontario SME***

\$1,000,000 of the principal amount of the debenture is convertible at the holder's option at \$0.2319 to January 4, 2008. \$225,926 of the principal amount of the debenture is convertible to common shares of the Company at the holder's option at \$0.4630 to January 4, 2008.

In connection with the Financing, the Company and SME amended the terms of the convertible debenture to advance the maturity date of the debenture from February 28, 2008 to January 4, 2008 and the Company provided SME with a secured \$500,000 promissory note payable on April 30, 2008 in either cash or common shares of the Company, at the option of the holder. The amended and restated convertible secured debenture represents an extinguishment of the original financial liability. The accounting for the difference between the fair value of the new debt instrument and the carrying amount of the original debt instrument resulted in a loss on extinguishment of the original debt of \$468,457. The debentures were not repaid on January 4, 2008 and the Company continues to pay interest while it negotiates an extension of the terms of the debt.

***(c) 8% convertible secured debenture with a face value of \$1,388,889 issued to QIP***

The principal amount of the debenture is convertible to common shares of the Company at the holder's option at (i) \$0.20 to May 21, 2009; (ii) \$0.22 from May 22, 2009 to May 21, 2010; (iii) \$0.242 from May 22, 2010 to May 21, 2011; (iv) \$0.2662 from May 22, 2011 to May 21, 2012. The conversion price will automatically increase to \$0.25 per share upon the filing of audited annual financial statements, which disclose revenues of \$25,000,000 or "EBITDA," as defined in the amended debenture agreement, of at least \$4,000,000.

In connection with the Financing, the Company and QSET amended the terms of the convertible debenture to reduce the conversion price from \$0.4630 per share to the amounts shown above.

***(d) 8% convertible secured debenture with a face value of \$1,700,000 issued to QIP***

The principal amount of the debenture is convertible to common shares of the Company at the holder's option at (i) \$0.10 to May 21, 2009; (ii) \$0.11 from May 22, 2009 to May 21, 2010; (iii) \$0.121 from May 22, 2010 to May 21, 2011; (iv) \$0.1331 from May 22, 2011 to May 21, 2012. The conversion price will automatically increase to \$0.15 per share upon the filing of audited annual financial statements, which disclose revenues of \$25,000,000 or "EBITDA," as defined in the Debenture Agreement, of at least \$4,000,000. One year of interest amounting to \$136,000 was prepaid on closing.

***(e) 8% convertible secured debenture with a face of \$1,107,693 issued to QIP***

In September 2007, the Company issued a \$207,693 secured debenture to QIP. Transaction costs of \$12,693 were charged to expense.

In October 2007, the Company issued a \$100,000 and a \$300,000 secured debenture to QIP. The debentures matured in January 2008.

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On December 27, 2007, the Company issued a debenture with a face value of \$1,107,693 in exchange for the three debentures described above and an additional \$500,000 of cash proceeds from QIP. The debenture bears interest at 8% per annum, calculated monthly and payable quarterly in arrears. The debenture matures on December 27, 2012. The principal amount of the debenture is convertible to common shares of the Company at the holder's option at \$0.10

***(f) 10% secured term debenture with a face value of \$250,000 issued to QIP***

In December 2007, the Company issued a secured term debenture to QIP with a face value of \$250,000 bearing interest at a rate of 10% per annum, maturing March 27, 2009

***(g) 10% secured term debenture with a face value of \$280,000 issued to QIP***

In December 2007, the Company issued a secured term debenture to QIP with a face value of \$280,000 bearing interest at a rate of 10% per annum calculated monthly and payable quarterly in arrears, maturing March 9, 2009. This debenture is secured by certain claims by the Company for refundable federal and provincial tax credits.

At December 31, 2007, the Company was in breach of the financial covenants related to the debentures described in (a), (b), (c), (d) and (e) above. In April 2008, QIP, QSET and SME waived the breach and amended certain financial covenants of the debentures. In connection with the waiver and amendment, the conversion price for all of the related debentures was revised to \$0.10.

The debentures described in (a), (b), (c), (d) and (e) above are financial instruments that contain both a liability and an equity element. The Company has determined the value of the liability, the most easily measurable component, for each liability and assigned the residual amount to the equity component as allowed under CICA Section 3861. The liability components of the convertible secured debentures have been calculated using the present value of the cash flows at an interest rate applicable to non-convertible secured debt. The liability portion of the convertible secured debenture is accreted over its term to the full face value by charges to interest expense. A summary of the allocations to the equity component of the debentures is as follows:

Opening	\$290,120
Equity component of debenture (d)	489,967
Reclassification of equity component to contributed surplus upon extinguishment of original debenture described in (b)	(57,748)
Equity component of modified debenture (b)	49,933
Equity component of debenture (e)	<u>321,887</u>
Ending balance	<u>\$1,094,159</u>

**11. DUE TO RELATED PARTIES**

All transactions with related parties that occurred in the normal course of operations are measured at their exchange amount as agreed to by the parties to the transaction.

On March 31, 2006, the Company converted \$500,000 owed to officers into 3,125,000 common shares at \$0.16 per share. On November 10, 2006, the Company converted a debt of \$364,001 owing to Navigate Design Inc., a company controlled by officers of the Company into 2,600,000 common shares at \$0.14 per share. The Company also converted \$411,000 of debt assumed from C3 Online Marketing Inc., and owing to former officers of C3, into 2,935,721 common shares of the Company at \$0.14 per share. At December 31, 2007, \$37,749 was outstanding and payable to officers of the

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Company (2006 - \$61,310). These advances are unsecured and non-interest bearing.

12. **SHARE CAPITAL**

**a) Authorized**

Unlimited number of preference shares, without par value, issuable in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Unlimited number of common shares.

**b) Issued**

	<b>Common Shares</b>	
	<b>Number</b>	<b>Amount</b>
Balance, January 1, 2006	19,079,969	\$ 745,833
Shares issued for cash	3,600,000	504,000
Conversion of debt	10,803,578	1,575,003
Business acquisition (note 21)	15,910,366	2,068,348
Share issue costs	-	( 42,797)
Balance, December 31, 2006	49,393,913	4,850,387
Stock options exercised	<u>150,000</u>	<u>21,000</u>
Balance, December 31, 2007	<u>49,543,913</u>	<u>\$4,871,387</u>

9,255,235 of the common shares issued in connection with the acquisition of C3 Online Marketing Inc. (note 21) were held in escrow at December 31, 2006 and 2007.

**c) Stock options**

The Company has a stock option plan (the "Plan") for certain directors, officers, employees and consultants to purchase common shares. The number of common shares issuable pursuant to the exercise of options granted under the Plan is 9,900,000. The options are non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is determined by the board of directors of the Company at the time of approving the grant of an option but, in any event, shall not be lower than the minimum exercise price allowed pursuant to the rules of the exchange on which the Company's shares are listed.

Stock-based compensation expense related to stock options for the year ending December 31, 2007, totaled \$137,078 (2006 - \$78,259). The grant date fair value of the options granted during 2007 was \$126,928 (2006- \$204,478).

Stock options were valued using the Black-Scholes option pricing model with the following assumptions:

- a) Risk-free interest rate 4.25 (2006- 4.25%);
- b) Expected life of 5.0 years (2006 - 5 years);
- c) Expected volatility of 120% (2006 - 167%); and
- d) Dividend rate of \$0 (2006 - \$0).

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Stock option activity is summarized below:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Options outstanding, December 31, 2005	1,750,000	\$0.25
Granted in 2006	2,010,248	\$0.12
Cancelled	<u>(585,000)</u>	\$0.23
Options outstanding, December 31, 2006	3,175,248	\$0.17
Granted in 2007	3,627,196	\$0.10
Cancelled in 2007	(200,000)	\$0.15
Exercised in 2007	<u>(150,000)</u>	\$0.14
Options outstanding, December 31, 2007	<u>6,452,444</u>	\$0.13
Options exercisable, December 31, 2007	<u>2,586,873</u>	\$0.18

The following table summarizes the options outstanding at December 31, 2007:

<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Remaining Life</b>
\$0.10	4,587,444	4.6 years
\$0.15	800,000	3.4 years
\$0.225	405,000	2.2 years
\$0.30	<u>660,000</u>	2.3 years
Options outstanding, December 31, 2007	<u>6,452,444</u>	

**d) Warrants**

In connection with the Financing (See note 10), the Company issued QIP 6,022,804 common share purchase warrants (the Warrants”) exercisable to purchase a total of 6,022,804 common shares of the Company from treasury at \$0.12 per share up and until May 22, 2012. QIP has agreed to transfer the Warrants to officers of the Company that the Company. The Warrants become exercisable by the holders as follows: 2,407,981 Warrants on January 1, 2008; 2,407,981 Warrants on April 1, 2009; and, 1,206,842 Warrants upon the achievement by the Company of repayment of all principal and interest repayment requirements represented by the amended and restated convertible secured debenture issued to SME as of November 10, 2006 (note 10 (b)). The fair value of these warrants at the date of issuance was \$248,665, which was determined using the Black Scholes pricing model and the assumptions set out in Note 12 (c) above, and this amount has been included in stock-based compensation.

At December 31, 2007, the Company had the following warrants outstanding:

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<u>Number Outstanding</u> 6,022,804	<u>Strike Price</u> \$0.12	<u>Expiration Period</u> May 2012
----------------------------------------	-------------------------------	--------------------------------------

Warrant activity is summarized below:

	Number Outstanding	Weighted Average Exercise Price
Balance, December 31, 2006	1,000,000	\$0.25
Granted in 2007	6,022,804	\$0.12
Expired in 2007	<u>(1,000,000)</u>	\$0.25
Balance, December 31, 2007	<u>6,022,804</u>	\$0.12
Warrants exercisable, December 31, 2007	<u>-</u>	-

**e) Contributed Surplus**

The following table summarizes information regarding contributed surplus:

	2007	2006
Opening Balance	\$ 507,510	\$ 429,251
Stock based compensation	385,743	78,259
Extinguishment of convertible debenture	<u>57,750</u>	<u>-</u>
Closing Balance	<u>\$951,003</u>	<u>\$507,510</u>

**13. INTEREST & TRANSACTION COSTS ON LONG-TERM DEBT**

	2007	2006
Interest expense on short-term borrowings	\$220,896	\$ 140,428
Accretion interest	202,356	13,412
Transaction costs on long-term debt	<u>378,766</u>	<u>199,128</u>
	<u>\$802,018</u>	<u>\$ 352,968</u>

**14. OTHER EXPENSES**

	2007	2006
Severance costs on termination of executives	\$ 413,629	\$ -
Loss on extinguishment of debt (note 10(b))	468,457	441,209
Provision for loan receivable and other	<u>(9,705)</u>	<u>1,095,734</u>
	<u>\$872,381</u>	<u>\$1,536,943</u>

The Company advanced funds to Automotive Video Productions Inc. ("AVP") from 2003 to May 2006. During this period, the Company also provided services to customers of AVP. The loan receivable is non-interest bearing and has no fixed repayment terms. During 2006, the Company determined the loan balance of \$910,734 was not recoverable and provided fully for the balance.

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15. **INCOME TAXES**

**a) Current income taxes**

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 34.12% (2006 – 36%) is as follows:

	<b>2007</b>	<b>2006</b>
Loss before income taxes	\$(5,926,377)	\$ (5,922,385)
Income taxes at statutory rates	\$(2,014,968)	\$ (2,130,058)
Tax effect of expenses not deductible for income tax purposes:		
Write down of intangible assets	-	472,324
Stock-based compensation	131,153	28,173
Loss on extinguishment of debt	168,645	152,498
Other	65,170	144,914
Change in valuation allowance	<u>1,650,000</u>	<u>1,332,149</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

**b) Future income taxes**

Components of the Company's net future income tax assets are:

	<b>2007</b>	<b>2006</b>
Non-capital losses	\$2,637,000	\$ 1,694,000
Capital assets	360,000	263,000
Intangible assets	(536,000)	(1,161,000)
Share issue and financing costs	60,000	75,000
Valuation allowance	<u>(2,521,000)</u>	<u>(871,000)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

The company has recorded a full valuation allowance to reflect uncertainties associated with the realization of all future income tax assets.

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**Investment tax credits**

As a result of scientific research and development expenditures incurred by C3 Online Marketing Inc. prior to its acquisition by the Company on November 10, 2006, it is estimated that there may be up to \$300,000 of refundable federal and provincial tax credits receivable following completion of an audit process by tax authorities. Due to uncertainties as to the amounts that will ultimately be approved and the timing of receipts, no amounts have been recorded in the accounts for these possible refunds. Once the amounts receivable can be reasonably estimated, these credits will be recorded as a reduction of the cost of software acquired as part of the acquisition.

**Losses carried forward**

The Company has non-capital losses of approximately \$8.1 million available to reduce future income taxes. The non-capital losses expire approximately as follows:

2009	\$ 275,000
2010	\$ 249,000
2014	\$ 474,000
2015	\$ 697,000
2016	\$3,331,000
2017	\$3,112,000

16. **SUPPLEMENTARY CASH FLOW INFORMATION**

The changes in non-cash working capital items comprise the following:

	<b>2007</b>	<b>2006</b>
Change in accounts receivable	\$1,392,824	\$ (290,195)
Change in income taxes receivable	20,620	48,065
Change in work in progress	(68,431)	817,854
Change in prepaid expenses and deposits	(182,827)	8,523
Change in accounts payables and accrued liabilities	(656,515)	1,326,787
Change in deferred revenue	(310,267)	(425,441)
	<u>\$195,404</u>	<u>\$ 1,485,593</u>
Interest paid	<u>\$ 701,062</u>	<u>\$ 342,353</u>
Retirement of amounts due to related parties upon issuance of capital stock	<u>\$ -</u>	<u>\$ 864,001</u>

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17. **COMMITMENTS**

The Company has non-cancellable operating lease commitments for its premises, vehicles and computer and office equipment. Future minimum annual lease payments are approximately as follows:

2008	347,959
2009	324,880
2010	285,116
2011	259,200
2012	259,200
Thereafter	<u>734,400</u>
	\$ <u>2,210,755</u>

18. **SEGMENTED INFORMATION**

The Company provides its clients with a complete range of marketing solutions that include strategic consulting, branding, event management, direct marketing, interactive solutions, online and offline promotional solutions and fulfilment and distribution services through an integrated sales and marketing and delivery team. In the opinion of management, the Company carries on business in one operating segment.

Revenue by geographic region:

	<b>2007</b>	<b>2006</b>
Canada	\$9,366,471	\$10,007,072
United States	<u>650,318</u>	<u>662,664</u>
	\$10,016,789	\$10,669,736

Revenues are attributed to countries based on location of customer. All of the Company's identifiable assets as at December 31, 2007 and December 31, 2006 are located in Canada.

19. **ECONOMIC DEPENDENCE AND RISK CONCENTRATION**

For the year ended December 31, 2007 approximately 41% of the Company's revenue was derived from three customers. The Company does not believe that this exposes the Company to undue credit risk as each of these customers are major publicly traded international manufacturers of consumer goods. The Company believes that its maximum credit risk exposure on accounts receivable is limited to the amounts it has recorded as an allowance for doubtful accounts, which at December 31, 2007 amounted to \$133,263 (December 31, 2006- \$107,000).

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20. **CONTINGENCIES**

- a) Five claims totaling \$2,073,000 have been brought against the Company and its subsidiaries alleging breaches of various contractual obligations. Included in this total are a claim for breach of contract in the amount of \$1,500,000 by a former officer and employee of the Company, and a compensation claim in the amount of \$223,000, filed by a former employee and officer of the Company, following the employee's resignation. No provisions have been made in the accounts as the Company considers these actions without merit and is defending these claims.
- b) As a result of on-going operating losses and a working capital deficiency, the Company has in certain instances been unable to satisfy its suppliers payment terms. The Company's ability to continue as a going concern is dependent on the continued support of its suppliers as well as its ability to secure additional financing and generate future positive cash flows. Most suppliers continue to support the Company but there can be no assurance that certain suppliers will not seek legal remedies to collect amounts due beyond their credit terms.

21. **BUSINESS ACQUISITIONS**

**C3 Online Marketing Inc.**

On November 10, 2006, the Company purchased all of the issued and outstanding shares of C3 Online Marketing Inc. ("C3"), a provider of online solutions for marketers designed to attract and retain online relationships. The results of C3 are included in these consolidated financial statements from the date of acquisition.

The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

Cash and short term investments	\$ 653,156
Non-cash working capital	104,610
Property and equipment	442,822
Obligation under capital leases	( 22,848)
Software	3,229,951
Convertible debentures	<u>( 2,339,343)</u>
Net assets purchased	<u>\$2,068,348</u>
Consideration – issuance of common shares	<u>\$2,068,348</u>

The Company completed the acquisition transaction of C3 and acquired all of the outstanding shares of C3 in exchange for the issuance of 15,910,366 common shares of the Company issued at treasury at \$0.13 per share. In connection with the acquisition, the Company assumed an aggregate of \$2,911,011 of debt owed by C3, comprised of \$2,500,000 principal amount of debt evidenced by two convertible debentures previously issued by C3 to an arm's length lender, as well as an aggregate of \$411,011 of debt owed by C3 to officers of C3.

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22      **DEBT SETTLEMENTS**

On November 10, 2006, in connection with the acquisition of C3, the Company issued an aggregate of 7,678,578 common shares from treasury at \$0.14 per share in settlement of an aggregate of \$1,075,001 of debt owed by the Company consisting of \$411,000 assumed from C3 and owing to former officers as described above (note 21), \$364,001 owing to a company controlled by certain shareholders of the Company, and \$300,000 to repay principal on the Company's three convertible secured debentures, two of which were assumed from C3.

On March 31, 2006, the Company issued an aggregate of 3,125,000 common shares from treasury at \$0.16 per share in settlement of debt owed to an employee and an officer of the Company for total consideration of \$500,000.

23      **COMPARATIVE FIGURES**

The comparative financial statements have been reclassified, where necessary, to conform to the basis of presentation of the 2007 financial statements.

24      **SUBSEQUENT EVENTS**

**Acquisition of Mediamix Marketing Group**

On September 26, 2007, The Company signed a letter of intent with Mediamix Marketing Group Inc. ("Mediamix") to form an expanded marketing solutions platform through the business combination of each of the Company and Mediamix. A definitive agreement was signed in February 2008, subject to certain pending closing conditions.

**Issuance of Debentures**

During the period January – April 2008, the Company has issued \$640,000 of secured term debenture to QIP bearing interest at a rate of 10% per annum calculated monthly and payable quarterly in arrears.