



**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2006**

## Introduction

The following Management's Discussion and Analysis ("MD&A") for the three months and year ended December 31, 2006, compared with the three months and year ended December 31, 2005, provides readers with an overview of the operations of Synergex Corporation ("Synergex" or the "Company") and a more detailed explanation of its financial statements. This MD&A provides information that management of Synergex believes is important to assess and understand the results of operations and financial condition of Synergex. Our objective is to present readers with a view of Synergex through the eyes of management by interpreting the material trends and uncertainties that affect the operating results, liquidity and financial position of Synergex. This discussion and analysis should be read in conjunction with Synergex' Consolidated Financial Statements and accompanying notes thereto for the twelve month period ended December 31, 2006. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars. This MD&A is current as of March 29, 2007.

## About Synergex Corporation

Synergex Corporation is a leading provider of business solutions. Synergex' objective is to deepen our involvement in markets we service in profitable and sustainable ways. We provide a variety of services and technology solutions from a deep base of management experience and success that allow our customers to optimize their business processes, improve customer satisfaction, achieve quality assurance goals, and reduce costs. Our strategy has enabled us to deliver continuing growth and good financial performance since the roots of our organization were established 20 years ago. We will continue to build a stronger platform for future profitability.

We are steadily generating more business while also investing for long-term growth. It is expected that the balance of the decade will be an exciting time of growth for Synergex. We will pursue a unified vision in all of our businesses: to be a premier, multi-industry company emphasizing the use of our expertise coupled with emerging technologies to provide an expanding breadth of solutions to our customers' business objectives.

The Corporation has three workgroups: Synergex Commercial Gateway, Synergex Technology and Synergex Business Information, which provide valued-added depth in the areas of video game logistics and distribution, digital signage, point of sale solutions, Radio Frequency Identification, credit reporting and collection services.

(1) Synergex Commercial Gateway is the core of the Corporation's businesses and delivers a value-added suite of supply chain management solutions for manufacturers and retailers, primarily in the computer entertainment sector. It provides a turn-key solution for accessing the Canadian retail market and is one of Canada's leading providers of video game products. Synergex has also commenced similar operations in Mexico and South America in 2007. Synergex Commercial Gateway delivers value-added supply-chain management and distribution solutions to its customers, which include some of the world's leading computer entertainment publishers and a variety of mid-sized manufacturers, including Sony Computer Entertainment America, Midway Games Inc., Namco Bandai Games America Inc., Atari, Inc., and LucasArts, A Division of Lucasfilm Entertainment Company Ltd.

(2) Synergex Technology designs, implements and supports customer Information Technology infrastructures, including Systems Integration, Telecommunications, Digital Signage, and Radio Frequency Identification ("RFID") technology, and provides turn-key development, installation, service, and support.

We have capitalized on the integration of Synergex Control Automation, through successful RFID implementations with Lear Corporation, Tenneco Automotive and Automodular Assemblies. By

leveraging our relationship with Nokia, we offer customer driven field force solutions for RFID implementations in the hospitality, security, maintenance and repair and pharmaceutical sectors.

We have taken the initiative to work with some of the larger advertising companies in Canada to deploy a host of digital signage solutions to enhance the retail environments of our customers. This has resulted in the launching of the implementation of digital signage and point of sale solutions at several restaurant chains.

(3) Synergex Business Information provides commercial credit risk evaluation and reporting, accounts receivable management, background checking and paralegal services. It provides trade credit risk evaluation and reporting services, legal resource services, accounts receivable management, debt collection services, pre-employment background checking and paralegal services through Lumbermen's Credit Bureau and Canada Bonded Attorney. Lumbermen's Credit Bureau is a leading credit reporting service in the construction industry in Ontario and is continuing to strengthen its presence in Alberta. Canada Bonded Attorney runs Synergex' accounts receivable management and debt collection business.

Synergex serves a broad base of customers that include many multinational enterprises.

## **Overview**

Synergex continued to experience growth in 2006. The company expanded on its diverse suite of services provided through its workgroups. Synergex continues to build on its existing framework and continually develop strategic improvements to our supply chain technology and the depth of our information systems. This allows us to maintain our relationships with our customers and gain a better understanding of their needs and allowing us to augment the services provided to them.

We have expanded capabilities, increased operating effectiveness for current and future customer needs, and maintained a fast pace of innovation. Sales have increased due to the addition of new clients in all of our workgroups. We have been successful in continuously adding more customers to the fold.

In addition, we continue to strengthen our management system through staff training and quality programs, and we have increasingly encouraged our business managers to develop novel, broad, high-impact solutions which lead, not follow. All Synergex businesses are shaped by our core management team and is built on our knowledge base, allowing our suite of services to broaden beyond their historical origins and evolve to suit customer requirements.

## **Selected Achievements and Milestones for 2006**

### *Highlights from the Commercial Gateway workgroup*

Synergex signed contracts with eight additional software publishers for Canadian sales operations and fulfillment services. We continued to provide a wider range of affordable products available to retailers. We also commenced our investment strategy into Central and South America to offer computer entertainment publishers a turn-key solution for accessing those respective markets, similar in scope to the Company's Canadian retail solutions. Beginning in 2007, Synergex will provide customers with knowledgeable, local personnel to act as territorial sales representatives in Latin American markets, and the Company will provide local fulfillment and supply chain management to retail partners.

### *Highlights from the Synergex Technology workgroup*

The Company's general approach is to allow new technologies to establish themselves and gain some early market acceptance prior to Synergex committing resources to them so that our assets are conserved and standards are established while management evaluates the technology landscape carefully. However, when the chosen technology is ready to move from the early-adopter phase to broad

implementation, Synergex wants to be there to lead the way and shape the industry. Objectives accomplished in 2006 include:

1. Development of software tools that we will integrate to provide digital advertising services to the retail environment and custom manufacturing and local quality control of digital point-of-sale systems and digital signage for retail environments.
2. Integration of the assets of SJS Control Technologies Inc. acquired by Synergex Control Automation Inc. and by utilizing knowledge in industrial control automation in large manufacturing plants.
3. Work Force Automation, using RFID tags and an add-on kit that converts an affordable Nokia phone into an RFID reader, and is powered by a server application from Nokia Corporation.

### *Highlights from the Business Information workgroup*

We continued to build on the goals established in 2005. Objectives accomplished in 2006 were:

1. New product development including Risk Manager Rapid.
2. The renewed customer focus by all staff.
3. The update of the technology base.
4. Continued rationalization of expenditures and an increase in workflow efficiency.

## **Financial Overview**

Highlights of the Company's consolidated financial results for the three months ended December 31, 2006, compared to the three months ended December 31, 2005, were as follows:

- Sales were up in Q4, at approximately \$83.7 million, or 46.6% above the \$57.1 million in sales recorded in the same quarter in the prior year;
- Gross profit of approximately \$11.1 million was an increase of approximately \$1.7 million, or 18.3% above the same quarter in the prior year;
- Income before income taxes decreased to approximately \$1.7 million in the fourth quarter of 2006 from approximately \$3.5 million in the fourth quarter of the prior year;
- Net income for the fourth quarter decreased to approximately \$1.5 million in the fourth quarter of 2006, from \$2.2 million in the fourth quarter of the prior year; and
- EBITDA for the fourth quarter of 2006 decreased 44.5%, and was approximately \$2.1 million compared to EBITDA of approximately \$3.7 million in the same quarter a year ago.

For the twelve months ended December 31, 2006, compared to the twelve months ended December 31, 2005:

- Sales were up significantly at approximately \$175.9 million, or 16.3% above the \$151.3 million in sales recorded in the prior year;
- Gross profit of approximately \$23.9 million was an increase of approximately \$2.3 million or 10.8% above the prior year;
- Income before income taxes decreased to approximately \$4.7 million in 2006 from approximately \$7.0 million in the prior year;

- Net income for the year decreased to approximately \$3.4 million in 2006 from approximately \$4.4 million in the prior year; and
- EBITDA for 2006 decreased 29.7%, to approximately \$5.6 million compared to EBITDA of approximately \$7.8 million in the prior year.

## Selected Annual Information

### Results of Operations

Summary of Operations (in thousands of dollars, except earnings per share and dividends per share)	Three months ended December 31		Twelve months ended December 31		
	2006	2005	2006	2005	2004
Sales	\$83,697	\$57,080	\$175,942	\$151,267	\$113,723
Gross Profit	11,086	9,370	23,916	21,587	13,126
Expenses					
General and administration	4,757	2,860	12,848	9,872	8,110
Sales costs	4,142	2,931	5,445	3,791	1,193
Interest and bank charges	(8)	64	108	212	235
Interest income	(77)	(70)	(379)	(197)	(130)
Amortization of equipment	384	216	931	712	655
Amortization of customer list	24	24	96	96	56
Employee termination costs	0	19	0	41	96
Loss (gain) on disposal of equipment	133	(16)	134	(16)	308
Business combination costs	0	(125)	0	88	147
Lease termination cost	0	0	0	0	57
Income before income taxes	1,731	3,467	4,733	6,988	2,399
Provision for income taxes	202	1,219	1,297	2,603	647
Net income for the period	\$1,529	\$2,248	\$3,436	\$4,384	\$1,752
Earnings Per Share:					
Basic and Fully diluted	\$0.02	\$0.02	\$0.03	\$0.04	\$0.02
Total Assets	\$74,807	\$49,681	\$74,807	\$49,681	\$42,169
Total long-term financial liabilities	\$333	\$451	\$333	\$451	\$565
Cash dividend per share					
Series A Preference			\$0.065	\$0.051	\$0.00
Common			\$ Nil	\$ Nil	\$ Nil

## Seasonality

The Commercial Gateway business is a diversified suite of disciplines, being complementary business processes that we manage for customers, and at the present time primarily involves comprehensive supply chain management and sale of video game products to retailers and sub-distributors in Canada, and includes freight forwarding, and pick-and-pack services, and printing services. Retail activity is traditionally at its highest in March, May, and from September through January. Accordingly, Q4 reflects the high volume period for our computer entertainment supply chain businesses. This business has shown growth over the same period last year due to the addition of new customer volume. The financial effect of these added clients will positively impact our results in the future.

## Consolidated Sales

Consolidated sales for the three-month period ended December 31, 2006, totaled \$83,697,098, an increase of \$26,616,742 or 46.6% from \$57,080,356 for the same period last year. Consolidated sales for the full year ended December 31, 2006 totaled \$175,942,374, an increase of \$24,674,875 or 16.3% from \$151,267,499 for the prior year.

The breakdown of sales by workgroup:

Sales (in thousands of dollars, except earnings per share)	Three months ended December 31		Twelve months ended December 31		
	2006	2005	2006	2005	2004
Commercial Gateway	\$80,642	\$55,121	\$166,655	\$144,492	\$106,814
Synergex Technology	1,835	844	4,938	2,063	1,358
Business Information	<u>1,220</u>	<u>1,115</u>	<u>4,349</u>	<u>4,712</u>	<u>5,551</u>
Total	<u>\$83,697</u>	<u>\$57,080</u>	<u>\$175,942</u>	<u>\$151,267</u>	<u>\$113,723</u>

Increased sales from Commercial Gateway is attributable to the continued acquiring of new customers from 2005 and throughout 2006 and continued sell through of the software and peripherals and hardware of the previous generation console product. As the new generation product becomes more readily available, this should also increase sales, in particular the respective software.

The increase in the Commercial Gateway from 2004 to 2005 is attributable to the acquisition of five new customers in late 2004 and the further addition of eight additional customers in 2005. Accordingly, the 2004 sales figure is not reflective of a full year of operations.

The increase in the sales in the Synergex Technology workgroup is attributed to the integration of the assets of SJS Control Technologies Inc. which were acquired by Synergex Control Automation Inc. as well as the commencement of revenue earned from the deployment of digital signage and workforce solutions in 2006.

The increase in the sales of the Synergex Technology workgroup from 2004 to 2005 was due primarily due to Synergex Technology commencing operation in May 2004 and thus did not account for a full year of operations.

The decrease in the sales in the Business Information workgroup is due to the general state of the Canadian economy. The stable, relatively flat condition of the Canadian economy continues to adversely affect the collection business, in that the number of quality claims placed for collection remains low. More claims are placed during periods of economic growth or decline when growing receivable portfolios and

defaults expand beyond the ability of clients to manage. This is also affecting our credit reporting products as well, as some clients purchased smaller contracts, while others decided not to renew their contracts. Also, as we focused on cost rationalization program, the resources were not available to obtain additional clients.

The decrease in sales from 2004 to 2005 was due to the reasons mentioned above. In addition, during late 2004, a cost rationalization program was put into place in which excess staff were terminated and non-profitable contracts were not renewed.

Consolidated sales for the last eight quarters are summarized in the table below:

<b>Sales</b> (in thousands of dollars)		
	<b>2006</b>	<b>2005</b>
First Quarter	\$28,869	\$43,836
Second Quarter	26,335	20,550
Third Quarter	37,041	29,801
Fourth Quarter	83,697	57,080
<b>Total Sales</b>	<b>\$175,942</b>	<b>\$151,267</b>

### Consolidated Gross Profit

Consolidated gross profit for the fourth quarter ended December 31, 2006 was \$11,085,805 or 13.2% of sales, an increase of \$1,716,014, a 18.3% increase compared to \$9,369,791 or 16.4% of sales in the previous year. Consolidated gross profit for the year ended December 31, 2006 totaled \$23,916,147 or 13.6% of sales, an increase of \$2,329,011, a 10.8% increase compared to \$21,587,136 or 14.2% of sales in the prior year.

The breakdown of gross profit by workgroup:

<b>Consolidated Gross Profit</b>	<b>Three months ended December 31</b>		<b>Twelve months ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Commercial Gateway	12.8%	15.8%	12.9%	13.2%	9.7%
Synergex Technology	15.0%	34.8%	16.2%	26.4%	5.9%
Business Information	42.4%	40.8%	37.6%	43.0%	43.7%

The gross profit percentage for the year for the Commercial Gateway group decreased from 2005 to 2006 due to:

1. the impact of a rapidly weakening Canadian dollar (as the Company purchases the majority of its products in US dollars) during the fourth quarter as the Company was partially exposed to the 4% depreciation of the Canadian dollar during the quarter; and
2. the product mix sold during the year.

Hardware sales accounted for approximately 25% of sales in 2006 compared to 28% of sales in 2005. Although gross profit dollars earned on hardware are more per unit than software and peripheral products, they represent a lower gross profit percentage of sales than software and peripheral products.

The gross profit percentage for the year for the Commercial Gateway group increased from 2004 to 2005 due to:

1. the impact of a rapidly strengthening Canadian dollar throughout 2004 and 2005 and the aggressive hedging policy employed by the Company;
2. greater economies of scale incurred by the increase in volume of product moved;
3. aggressive negotiations with suppliers to reduce transportation costs; and
4. the product mix sold during the year.

Hardware sales accounted for approximately 26% of sales in 2004 compared to 28% of sales in 2005. Although gross profit dollars earned on hardware are more per unit than software and peripheral products, they represent a lower gross profit percentage of sales than software and peripheral products.

The gross profit percentage for the year for the Synergex Technology workgroup decreased from 2005 to 2006 due to the diversification from the original core business as a Value Added Reseller ("VAR") and making strategic investments in products and services that will generate higher margins over the long term, including digital signage and RFID, which on average have a higher margin. The margin for these products and services come from hardware margins and recurring software license, technical support and network management fees.

The gross profit for the year for the Synergex Technology workgroup increased from 2004 to 2005 due to the fact that it was strictly a VAR in 2004 and it added further diversified services in 2005 to its product mix.

The gross profit percentage for the year for the Business Information workgroup from 2005 to 2006 decreased due to the decreased sales, the slightly lower margins generated from consumer collections combined with the relatively fixed nature of the direct costs.

The gross profit percentage for the year for the Business Information workgroup from 2004 to 2005 decreased due to the decreased sales, the slightly lower margins generated from consumer collections combined with the relatively fixed nature of the direct costs and the time lag required to implement and realize the benefits of the cost rationalization measures which took place in 2004 and 2005.

## Selling, General and Administrative Expenses

Sales, general and administrative expenses for the three months ending December 31, 2006, totaled approximately \$8.9 million, an increase of \$3.1 million, or 53.7%, from \$5.9 million in the fourth quarter of last year.

For the year ended December 31, 2006, sales, general and administrative expenses compared to 2005 increased by \$4.6 million to a total of \$18.3 million, primarily due to costs to support increased sales and product development costs.

Selling, general and administrative expenses increased from approximately 9.0% of sales to 10.4% of sales due to the following:

1. increased expenses incurred of approximately \$2.1 million for maintaining and servicing the additional customers in the Commercial Gateway workgroup obtained in 2006 and supporting the increased sales volume from customers retained from prior periods;
2. expenses incurred of approximately \$600,000 relating to sales force hired and related expenses for the expansion into the Mexican, Central and South American markets;
3. increased expenses of approximately of \$350,000 due to costs to support increased sales and product development costs in the Synergex Technology workgroup;
4. increased expenses of approximately of \$400,000 due to costs to support increased software maintenance and licensing and software support costs relating to the ERP systems;
5. expenses in the Synergex Technology workgroup have increased by approximately \$250,000, due to the acquisition of the assets of SJS Control Technologies Inc. by Synergex Control Automation Inc.
6. increased expenses of approximately \$700,000 due to the consolidation of our three Mississauga facilities into one and the increase of the total square footage occupied to accommodate the current organizational needs and to facilitate future growth.

For the year ended December 31, 2005, sales, general and administrative expenses compared to 2004 increased by \$4.4 million to a total of \$13.7 million, primarily due to costs to support increased sales and product development costs.

Selling, general and administrative expenses increased from approximately 8.2% of sales to 9.0% of sales due to the following:

1. increased expenses occurred of approximately \$2.6 million for maintaining and servicing the additional customers in the Commercial Gateway workgroup obtained in 2004 and 2005;
2. increased expenses of approximately of \$500,000 due to costs to support increased sales and product development costs in the Synergex Technology workgroup;
3. increased expenses of approximately of \$300,000 due to costs to support increased software maintenance and licensing and software support costs relating to the ERP systems; and
4. increased expenses of approximately \$900,000 for the realignment and relocation of the Toronto facilities (the predecessor Carma facilities) to Mississauga.

## Interest Income, Interest Expense and Bank Charges and Amortization

As the Company tends to have cash balances that vary throughout the year, so does the interest income earned by the Corporation. Interest income was approximately \$0.1 million for the three months ended December 31, 2006 and for the same quarter last year.

Interest income was approximately \$0.4 million for the twelve months ended December 31, 2006 and \$0.2 million for the twelve months ended December 31, 2005 and \$0.1 million for the twelve months ended December 31, 2004 for the same period last year for the same explanation provided above.

Interest expenses and bank charges were negligible for the three months ended December 31, 2006 and \$0.1 million for the same quarter last year. This is primarily due to a major supplier extending normal credit terms to one of the Company's subsidiaries instead of requiring an open letter of credit, as well as the recovery of some bank charges from prior periods.

Interest expenses and bank charges were \$0.1 million for the twelve months ended December 31, 2006 and \$0.2 million for the twelve months ended December 31, 2005 and \$0.2 million for the twelve months ended December 31, 2004 for the same period last year primarily due to a major supplier extending normal credit terms to one of the Company's subsidiaries instead of requiring an open letter of credit.

Amortization of equipment and customer list was \$0.4 million for the three months ended December 31, 2006 compared to \$0.2 million for the same quarter last year. This increase is primarily due to the Company purchasing over \$2.3 million of assets in fiscal 2006. The bulk of these were computer hardware and software and leasehold improvements to the new facility.

Amortization of equipment and customer list was \$1.0 million for the twelve months ended December 31, 2006 compared to \$0.8 million for the same period last year. This increase is primarily due to the purchase of capital assets. The bulk of these were computer hardware and software and leasehold improvements to the new facility

Amortization of equipment and customer list was \$0.8 million for the twelve months ended December 31, 2005 compared to \$0.7 million for the same period in the prior year. This increase is primarily due to the upgrading of the ERP system in 2005.

The loss on disposal of equipment in 2006 and 2004 totaling \$133,566 and \$308,497 respectively, primarily pertaining to the write off of leasehold improvements on the consolidation of the facilities.

No business combination costs were incurred in 2006. The business combination costs incurred in 2004 and 2005 consist primarily of professional fees in connection with the transaction of combining Synergex Group Inc. and Carma Financial Services Corporation in March 2005.

## **Income before Income Taxes**

Income before income taxes for the fourth quarter was \$1,730,606, a decrease of \$1,736,468 compared to \$3,467,074 in the fourth quarter of the prior year. Income before income taxes in the 2006 year was \$4,733,512, a decrease of \$2,253,620 compared \$6,987,132 in the prior year.

## **Net Income**

Net income for the fourth quarter of 2006 was \$1,528,996 or approximately \$0.02 per share (basic and fully diluted) compared to \$2,248,442 or approximately \$0.02 per share (basic and fully diluted) in the same quarter a year ago. Net income for the 2006 year was \$3,436,896 or approximately \$0.03 per share (basic and fully diluted) compared to net income of \$4,383,991 or approximately \$0.04 per share (basic and fully diluted) in the prior year.

## **EBITDA**

References in these materials to "EBITDA" are to net income before interest expense, interest income, income taxes, loss (gain) on sale of equipment, and depreciation and amortization. EBITDA is not a recognized measure under Canadian GAAP. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings or cash flows from operating activities (determined in accordance with Canadian GAAP) as a performance indicator, or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Synergex' method of calculating EBITDA

may differ from other issuers and, accordingly, EBITDA may not be comparable to similar measures presented by other issuers. EBITDA performance is presented herein because management believes that, in addition to net income, EBITDA is a useful supplemental measure of Synergex' financial performance. EBITDA for the fourth quarter of 2006 decreased 40.6%, and was \$2,187,105 compared to EBITDA of \$3,684,865 in the same period a year ago. EBITDA for 2006 decreased 27.9%, and was \$5,623,266 compared to EBITDA of \$7,794,465 in the prior year.

## Summary of 2006 and 2005 Quarterly Results

<b>Fiscal 2006</b> (thousands of dollars except for earnings per share)				
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Sales per quarter	\$28,868	\$26,335	\$37,041	\$83,697
Gross Profit	4,252	4,384	4,194	11,086
General and administration	2,368	2,792	2,930	4,757
Selling costs	572	266	465	4,141
Interest income	(83)	(120)	(96)	(77)
Interest expense	37	48	31	(8)
Amortization of equipment	171	187	188	384
Amortization of customer list	24	24	24	24
Employee termination costs	0	0	0	0
Loss on disposal of equipment	0	0	0	134
Business combination costs	0	0	0	0
Provision for income taxes	447	369	279	202
Net income in the Quarter	\$716	\$818	\$373	\$1,529
Earnings per share basic and fully diluted	\$0.01	\$0.01	\$0.00	\$0.01
EBITDA, 2006, per quarter	\$ 1,312	\$ 1,324	\$799	\$2,188

**Fiscal 2005**  
(thousands of dollars except for earnings per share)

	Q1	Q2	Q3	Q4
Sales per quarter	\$43,836	\$20,550	\$29,801	\$57,080
Gross Profit	4,703	3,071	4,442	9,370
General and administration	2,224	2,036	2,750	2,860
Selling costs	353	176	331	2,932
Interest income	(43)	(42)	(42)	(70)
Interest expense	57	57	33	64
Amortization of equipment	159	167	171	215
Amortization of customer list	24	24	24	24
Employee termination costs	12	9	2	19
Gain on disposal of equipment	0	0	0	(16)
Business combination costs	177	32	4	(125)
Provision for income taxes	711	213	461	1,219
Net income in the Quarter	\$ 1,029	\$ 399	\$ 708	\$2,248
Earnings per share basic and fully diluted	\$0.01	\$0.00	\$0.01	\$0.02
EBITDA, 2005, per quarter	\$ 1,936	\$ 818	\$1,355	\$3,684

## Liquidity and Cash Resources

Synergex' primary sources of cash have historically been cash flow from operations. Cash has been used for the purchase of equipment, investment in technology, and general working capital uses, specifically managing levels of accounts payable, accounts receivable, and inventory. As of December 31, 2006, we had a net cash position of \$7,114,948 compared to \$6,378,456 as at December 31, 2005. For the year ended December 31, 2006, Synergex generated \$4,581,905 in cash from operations compared to \$3,971,008 generated in operating activities for the prior year. Synergex' net cash position varies with income earned, the timing of cash receipts from customers, and the timing of payments to suppliers. Working capital as at December 31, 2006 totaled \$11,455,207 compared to \$10,945,561 as at December 31, 2005.

Synergex maintains credit facilities with a Canadian chartered bank in the event that short-term financing is required. Other than capital leases, Synergex has no short-term or long-term financial debt. Maintaining liquidity is a key factor in management's funding strategy, and ensures our ability to satisfy the needs of customers and suppliers. Our policy is to have sufficient cash and cash equivalents and to have access to credit facilities in order to provide liquidity for all of our foreseeable funding requirements. Management expects that Synergex' positive working capital position will be maintained and believes that its working capital is sufficient to support its current operations and foreseeable obligations. As the business expands some external financing may be required.

## Contractual Obligations

The Company has entered into lease agreements to acquire equipment which as been financed by means of capital leases. The future minimum annual lease payments under the capital leases are as follows:

Year ending	Total	2007	2008	2009	2010	2011	Thereafter
Capital Lease Obligations	\$17,732,408	\$2,276,889	\$1,988,316	\$1,987,556	\$1,987,556	\$1,970,832	\$7,521,259
Operating Lease Obligations	\$362,147	\$135,800	\$99,165	\$127,182	\$0	\$0	\$0
Total	\$18,094,555	\$2,412,689	\$2,087,481	\$2,114,738	\$1,987,556	\$1,970,832	\$7,521,259

## Off-Balance Sheet Arrangements

The company has not entered into any off-balance sheet arrangements

## Related Party Transactions

David Aiello, the President, CEO and Director of the Company, owns 100% of BioAdvantex Pharma Inc. and 24.9% of Innovative Distribution Inc. Synergex renders logistics services and recovers general administrative costs as outlined in Note 12 to the audited annual financial statements for the year ended December 31, 2006.

## Critical Accounting Policies and Estimates

The Company's accounting policies are described in Note 2 to the consolidated financial statements. The preparation of the Company's financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The significant area requiring the use of management's judgment relates to the estimation of the valuation adjustment on future income tax assets.

## Consolidated Financial Position

Total consolidated assets increased to \$74,807,263 at December 31, 2006 from \$49,680,788 as at December 31, 2005. Total Shareholders' Equity increased to \$16,019,836 at December 31, 2006 from \$13,631,411 as at December 31, 2005.

## Outstanding Share Data

For information on outstanding share data, please refer to Note 9 to the Consolidated Financial Statements.

## Nature of Operations

The natural result of Synergex' business relationships and market share in the computer entertainment sector in Canada is that a significant percentage of its sales and purchases are concentrated among a limited number of customers and suppliers. For the 2006 year, two customers each accounted for more than 10% of sales and four suppliers each accounted for more than 10% of purchases. In fiscal 2005, two customers each accounted for more than 10% of sales and four suppliers each accounted for more than 10% of purchases. In fiscal 2004, three customers each accounted for more than 10% of sales and three suppliers each accounted for more than 10% of purchases.

## Forward Looking Statements

Some statements contained in this Management's Discussion and Analysis are forward-looking statements relating to Synergex' current expectations regarding future events. These forward-looking statements are based on our current expectations. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, including economic conditions, technological change, regulatory change, and competitive factors, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. For more information on the Company's risks and uncertainties relating to these forward looking statements, please refer to the risk factors section of the Company's MD&A below.

## Risk Factors

Any investment in the securities of the Company are speculative due to the nature of its business and the general stage of its development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors:

### *Competition*

Synergex' competition is comprised of comprehensive logistics, supply chain management, distribution, international freight forwarding, digital media design and printing, information technology procurement, development and implementation, control automation, credit reporting, and third-party debt recovery businesses. These are highly competitive industries with many competitors, the size of which vary significantly from small, ownership-managed businesses to large companies.

### *Risks Associated with Expansion Activities and Acquisition Strategy*

To successfully implement its corporate strategy, Synergex must be able to successfully integrate new assets and skills into an expanded suite of business disciplines. The consolidation and integration of functions and procedures presents an ongoing management challenge. The failure to achieve such integration would have a material adverse effect on the results of operations of Synergex. As a result, although Synergex believes it can successfully integrate its acquisition activities into its operations, there can be no assurance that Synergex will achieve improved operating results in each successive period. Ongoing product development activities and investment in our staff and technology base are essential to (a) ensure our leadership, (b) strengthen our competitiveness, (c) deepen our service capabilities, and (d) continue to implement our corporate concept in the future.

As part of Synergex' business strategy, it has sought and will continue to seek new development opportunities. In pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance acquisitions or integrate the acquired businesses and their personnel into the Company. Synergex cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit the Company.

### *Integration of Acquired Businesses and Growth*

As part of its long-term strategy, Synergex intends to acquire complementary businesses that are economically and strategically justified. However, there can be no assurance that Synergex will be able to identify attractive acquisition candidates in the future or that it will necessarily succeed in effectively managing the integration of acquired businesses. If the expected synergies from those transactions do

not materialize, or if it fails to successfully integrate acquired businesses there may be an adverse effect on the business.

#### *Dependence on International Trade and Continuing Trend to Outsource Logistics Services*

Synergex' principal businesses are directly related to the volume of international and domestic trade, in particular, cross-border trade between Canada and other countries. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations currency fluctuations and Canadian and foreign laws relating to duties trade restrictions, foreign investment and taxation. There can be no assurance that trade-related events beyond the control of Synergex, such as an increase in trade restrictions, will not have an adverse effect on Synergex' business.

#### *Dependence on Key Personnel*

The success of Synergex is dependent on the abilities, experience and efforts of a number of members of senior management. The experience of these individuals, as well as new talent that we attract to our organization, will be an important factor contributing to Synergex' continued success and growth. While Synergex has entered into employment agreements with its senior management and with substantially all full-time employees, should these persons be unable or unwilling to continue their employment with Synergex, the loss of one or more of these individuals could have an adverse effect on Synergex' operations and business prospects. Synergex does not carry "key man" insurance policies on any of its officers, directors or employees.

#### *Dependence on Equipment and Qualified Personnel*

To maintain a competitive position in the industry, Synergex will continue to place an emphasis on providing high quality of service for its customers. Synergex continues to provide its employees with on-going training and education, and utilizes reliable, up-to-date capital equipment, and computerized systems maintained through an in-house programming staff. There can be no assurance that Synergex will not experience employee turnover in the future or that Synergex' labour costs will not increase. There is no assurance that the Company will be able to continue to hire and retain a sufficient number of qualified personnel, though our track record in this regard is positive.

#### *Creating New Revenue Sources*

In addition to capturing a portion of the market by offering traditional services, Synergex' ability to grow revenue is based, in part, on its ability to sell additional value-added services to its existing and new clients, sometimes in nontraditional business models.

#### *Vulnerability to Economic Conditions*

Synergex is dependent on the economic environments in which it operates. Demand for Synergex' services could be adversely affected by economic conditions in the sectors in which Synergex' customers operates. Synergex' business has also experienced and is expected to experience fluctuations, and can be sensitive to external factors such as events which may adversely affect the economy and consumer spending. There can be no assurance that such factors may not have an adverse effect on Synergex' business.

#### *Seasonality of Business*

Although Synergex' businesses are increasingly diversified across various product lines and are carried on with a variety of customers, portions of its business and that of some of its customers (particularly those driven by consumer spending) are subject to seasonality. Synergex' results of operations generally vary between quarterly periods as a result of such seasonality.

### *Foreign Exchange*

Synergex conducts its business primarily in Canada and purchases a large percentage of the goods it sells in U.S. funds. Exchange rate fluctuations in the spot market are beyond Synergex' control and there can be no assurance that unmitigated exchange rate fluctuations would not have a material adverse effect on Synergex' business. Synergex continually analyzes the currency-related risks that it faces and may engage in mitigating transactions, to limit its exposure to such risks, but there can be no assurance that any mitigating strategy will, if entered into, be successful. See also the International Expansion Risk Factor below.

### *Technology*

Synergex has made significant investments in developing RFID and Digital Signage technologies which currently have no widespread industry standards. The introduction of products embodying new technologies and the emergence of new industry standards could render Synergex' existing products obsolete and unmarketable. There can be no assurance that Synergex will respond effectively to market or technological changes or compete successfully in the future. Synergex' future success will depend upon its ability to enhance its current offering of products to introduce new products that keep pace with technological developments, to respond to evolving end-users' requirements and to achieve market penetration.

### *Market Price of Common Shares*

The market price of Synergex' common shares has been and may be subject to wide fluctuations in response to factors such as actual or anticipated variations in Synergex' consolidated results of operations, as reflected in its quarterly earnings reports, general market considerations, and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the common shares.

### *Contingencies*

In the normal course of operations, there are or may be claims or proceedings instituted against Synergex. Management does not expect that these claims or proceedings will have a material effect on the financial position of Synergex or its results of operations. Losses sustained, if any, will be recorded on the statement of operations at such time as the loss is determined.

### *Dividend Policy*

No dividends on the Common Shares have been paid by Synergex to date. The Company anticipates that it will retain earnings and other cash resources for the foreseeable future for the operation and development of its business and does not intend to declare or pay any cash dividends in the foreseeable future. Synergex has paid dividends on its Series A Preference Shares. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including operating results, financial condition and current and anticipated cash needs. The annual dividend per Series A Preference Shares was \$0.065 per share in 2006, \$0.051 per share in 2005 and no dividends were paid in 2004, for an aggregate amount of \$410,511, \$276,475 and \$0, respectively.

### *Concentration of Share Ownership*

David Aiello, the President and CEO of the Company, owns approximately 74% of the outstanding Common Shares. As a result of his share ownership, David Aiello has the ability to elect all of the Company's directors and to determine the outcome of corporate actions requiring shareholder approval, including changes to share capital, irrespective of how other shareholders of the Company may vote. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company.

### *Dependence on Key Suppliers*

Synergex relies on a limited number of suppliers for its video game and software products. There can be no assurance that these suppliers, many of which have significantly greater financial and marketing resources, will not discontinue their distribution arrangement and independently market their products directly to retailers. The failure of the Company to maintain its existing relationships, or to establish new relationships in the future, could have a material adverse effect on the Company's business, results of operations and financial condition. As mentioned in the notes to Synergex' financial statements, approximately 69% of the Company's purchases for the last fiscal year related to the products manufactured by four companies.

### *International Expansion Risk Factor*

Synergex, because it is expanding its business into other, less economically developed countries, will encounter numerous political and business risks in the effort, as well as additional foreign currency risk. In many foreign countries, such as Mexico and throughout South America, business transactions are generally not conducted on as expeditious a schedule as in Canada and the U.S. This slowness can lead to cost over-runs and negatively impact revenues and expenses. To the extent there might be a necessity for litigation on a commercial matter, the likelihood of success in the litigation may not be as easy to measure as would be the case with a Canadian court.

There are political risks associated with investments in a developing host country. The principal political risks are the degree of political stability, government attitudes about foreign investment, the extent of government involvement in the economy of the host country and the economic projections for the host country. Synergex could be negatively impacted, for example, by the implementation of new exchange controls, through the expropriation of its assets through governmental action, or by the implementation of tax polices that could be either burdensome or confiscatory. Further, no assurance can be given that an existing government or political party in power in a host country will continue to enjoy a level of political stability and governmental predictability. A governmental change could impact the certainty and stability of the laws and regulations applicable to Synergex' business.

## **Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to management, including the Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure.

As of December 31, 2006 and December 31, 2005, an evaluation of the effectiveness of our disclosure controls and procedures, as defined under Multilateral instrument 52-109, was carried out under the supervision of and with the participation of management, including the President and CEO and the CFO. Based on that evaluation, the President and CEO and the CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2006 and December 31, 2005 and ensure that information is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws.

### **Internal Controls over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management evaluated the design and operation of our internal control over financial reporting as of December 31, 2006 and December 31, 2005, based on the framework and criteria established in Internal Control—Integrated Framework issued by the COSO, and has concluded that our internal control over financial reporting is effective.

There are no material weaknesses that have been identified by management. No changes were made in our internal control over financial reporting during the year ended December 31, 2006 and December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SYNERGEX CORPORATION  
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# Synergex Board of Directors and Management

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Thomas Davidson Jr.  
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Matthew Reiter  
Senior Vice-President

Jean-Paul Rehr  
Senior Vice-President

Eric So, LL.B.  
Vice-President, Corporate Strategy and General Counsel

For more information on the Company and what Synergex can do for your business, please visit our website at: [www.syx.ca](http://www.syx.ca). Additional information, including the Company's Annual Information Form, is available under its profile on SEDAR at [www.sedar.com](http://www.sedar.com).