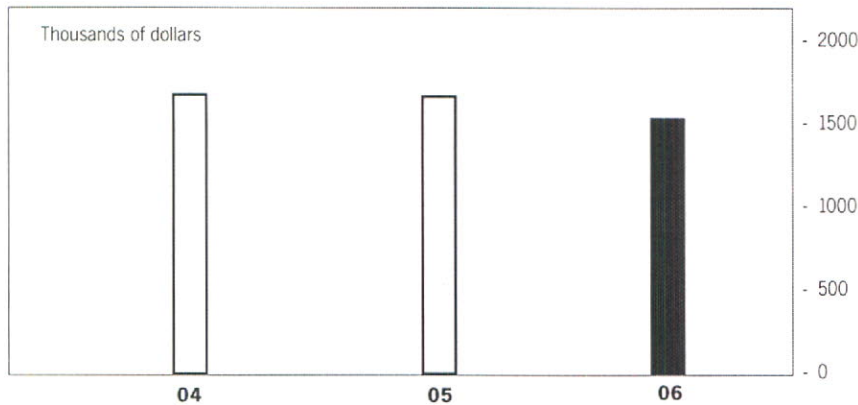
ANNUAL REPORT 2006

HOWARD ROSS LIBRARY OF MANAGEMENT
McGILL UNIVERSITY

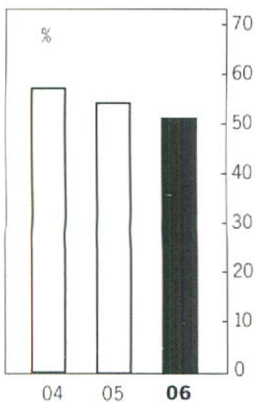
Financial Highlights

For the years ended December 31	Results of Operation 2006	2005	2004
Sales	$ 13,363,905	$ 12,568,092	$ 13,045,751
Gross Profit	6,919,318	6,730,121	7,319,192
Gross Profit %	51.8%	53.5%	56.10%
EBITDA*	1,582,726	1,614,752	1,661,048
Earnings (Loss) Before Income Taxes	(384,071)	1,674,545	(423,333)
Income (Loss) For Year	(384,071)	1,686,404	(462,354)
Income (Loss) Per Share	($ 0.01)	$ 0.04	$ (0.01)
1.00 USD to $CAN Average Exchange Rate	1.13	1.21	1.30

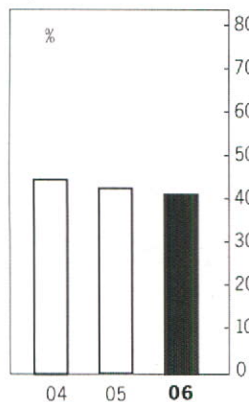
EBITDA 2004, 2005 & 2006



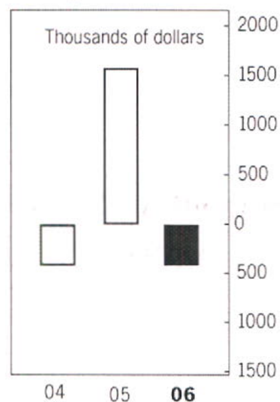
Gross Profit Ratio



Expenses to Revenue Ratio



Earnings Before Income Taxes



*EBITDA is calculated by taking Net Loss and adding back interest, taxes, depreciation and amortization. Amortization includes inventory allowance on revenue generating systems.

Footmaxx Holdings Inc. is a leading provider of high quality medical products targeting clinicians in the orthopaedic, podiatric, athletic trainer, rehabilitation and chiropractic markets. The Company sells its products in 12 countries with primary markets in the USA and Canada. Products are sold directly to healthcare professionals and through distributors.

The Company continues to develop its own medical products as well as distribution products to meet the needs of the various clinicians it targets. The Company products range from a proprietary diagnostic system, Metascan™, used for assessing a patient's gait function, posture and balance to custom braces, orthoses and orthopaedic soft goods that complement the needs of our targeted practitioners.

Started in 1994, the Company celebrated its 12-year Anniversary in October 2006. Since that time the Company has grown to 125 employees, with operations in the USA and Canada. Footmaxx is a leading orthopaedic and diagnostic healthcare company targeting products and services to meet the needs of practitioners, providing relief to patients with biomechanical difficulties and foot related problems.

TO OUR SHAREHOLDERS

We continue our successful strategy to expand and diversify our customer base of healthcare professionals that include podiatrists, orthopaedic surgeons, chiropractors, orthotists and prosthetists, physical therapists and athletic trainers. During 2006 we again added several hundred new customers to our sales base.

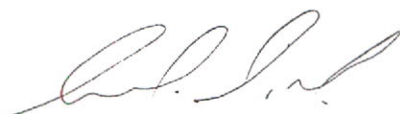
In 2006 we increased our sales by 6.3% and maintained our gross profit and EBITDA. In 2006, however, the combination of the fourth consecutive year of a decline in the value of the USA dollar exchange rate and competition cost the company in revenue. If not for the impact of the decline in the US dollar, revenues would have increased by 10.1%. Revenue increased by 16.6% in our Canadian market, while revenues from the International businesses declined 2.8%, as a result of a 7% year-to-year exchange rate fluctuation. The Company continues to improve and refine operations to offset some of the impact of exchange rate fluctuations that have impacted the International portion of the business.

The company has continued, as planned, to pay down its Mezzanine loan. The Mezzanine loan is on schedule to be retired in full by the end of May 2007. In addition all debt covenants were met for the year.

During 2006 we expanded our product line, updated Metascan our diagnostic software and introduced several new lines of braces and footwear. The new products are on target to enhance our growth prospects in key markets.

LOOKING FORWARD TO 2007

We are encouraged by the increase in volume in our Canadian and International markets. We continue to alter our operations to deal with the significant impact of exchange fluctuation in our International markets. We remain focused on reducing debt investing in improved operating efficiency and expanded product lines, which we believe will lead to increasing sales volumes.



Lenny Simak

President & CEO

for the Twelve Months Ended December 31, 2006 Management Discussion and Analysis

OVERALL PERFORMANCE

During 2006, the company focused on expanding product lines and introducing new products as well as growing the existing orthotic business. As a result, revenue in 2006 was $13,363,905, an increase of $795,813 or 6.3% from $12,568,092 in 2005. Had it not been for the impact of the decline in the value of the US dollar, revenues would have increased $1,268,909 or 10.1%. The company continued to proactively manage costs to offset the impact of currency exchange. As a result EBITDA decreased marginally over the prior year by $32,026 or 2.0%, to $1,582,726. Net income in 2006 decreased to a loss of $384,071. Net income for 2005 included a one-time gain on the conversion of preferred shares of $2,068,157.

RESULTS OF OPERATIONS

NON-GAAP MEASURES

In the Management Discussion and Analysis, and elsewhere, measures such as earnings before interest, taxes, depreciation and amortization (EBITDA) and other terms that are used are not defined by generally accepted accounting principles ("GAAP"). The use of these terms may not be consistent with the way these terms are used by others. Where possible, in particular for EBITDA, tables and other information are provided that enables readers to reconcile between such non-GAAP measures and standard GAAP measures. While these measures are not defined by or required by GAAP, this information is provided to readers to help them better understand the performance of the Company.

REVENUE

Revenue for 2006 increased during the year by $795,813 or 6.3%, to $13,363,905 from $12,568,092. Had it not been for the impact of the decline in the value of the US dollar, revenues would have increased $1,268,909 or 10.1%. Orthotic volume increased by 6.9%, increasing revenue for the year by approximately $560,000. During 2006, the company continued to increase its product offering to existing customers and to expand its customer base. The successful market acceptance of these products and new customers has enabled the company to increase revenues in spite of the negative impact of the foreign exchange situation.

REVENUE BY GEOGRAPHIC AREA

	Revenues by Geographic Area			
$CDN (000's)	2006	% Total Sales	2005	% Total Sales
Canada	$6,872	51.4%	$5,891	46.9%
International (mainly USA)	$6,492	48.6%	$6,677	53.1%
Total Sales	$13,364	100.0%	$12,568	100.0%

The revenue in Canada for 2006 increased 16.6% over 2005 primarily due to the acceptance of expanded product lines and a 10.5% increase in orthotic volumes. New products and new customers contributed to the growth in International, with the volume of orthotics increasing by 4.2%. Year to year currency fluctuations due to the weakening of the US dollar against the Canadian dollars, impacted International revenues by 7%, and resulted in an overall revenue decrease in International of 2.8%.

GROSS PROFIT

Gross Profit increased $189,197 or 0.3% from $6,730,121 in 2005, to $6,919,318 in 2006. The gross profit percentage decreased year over year, due to the net effects of an unfavorable foreign exchange, increased manufacturing costs and increased pricing competition on certain products.

$CDN (000's)	Gross Profit by Geographic Area			
	2006	% Gross Profit	2005	% Gross Profit
Canada	$3,716	53.7%	$3,197	47.5%
International (mainly USA)	$3,203	46.3%	$3,533	52.5%
Total Sales	$6,919	100.0%	$6,730	100.0%

Canadian gross profits increased by $519,000 due to increased revenues generated by the acceptance of new and expanded product lines. Gross profit in the International business decreased by $330,000 primarily due to unfavorable foreign exchange rates.

OPERATING EXPENSES

SALES & ADMINISTRATIVE expenses increased $285,040 or 6.7% during 2006. Increase selling and marketing expenses for 2006 was due to increased activity in field sales and marketing, to generate business. Finance and administration expense increased $224,556 or 13.8%. Year end adjustment for bad debt expenses contributed approximately $100,000 and increased staff levels increased the compensation expense by approximately $100,000.

Selling and Administration	2006	2005	Increase	%
Field Sales Force	$2,458,840	$2,433,536	$25,304	1.0%
Marketing Expense	$246,689	$211,514	$35,175	16.6%
Finance and administration	$1,850,714	$1,626,153	$224,561	13.8%
	$4,556,243	$4,271,203	$285,040	6.7%

Information Technology expenses decreased $10,592 from $848,728 in 2005 to $838,136 in 2006.

NET INCOME (LOSS)

Net loss for 2006 is $ 384,071, which is a decrease of $2,070,475 over the $1,686,404 net income recorded for 2005. Net income for 2005 included a one-time gain on the conversion of the preferred shares of $2,068,157.

Summary of quarterly results

(000's) $CDN	2006				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$3,344	$3,449	$3,249	$3,322	$2,785	$3,390	$3,298	$3,095
Net Income (Loss)	$(78.7)	$16.6	$(164.8)	$(157.2)	$(331.4)	$43.8	$(79.4)	$2,053.4
Basic Earnings (Loss) per share	($0.00)	$0.00	($0.00)	$(0.00)	($0.01)	$0.00	($0.00)	$0.05
Fully Diluted Earnings (Loss) per share	$0.00	$0.00	($0.00)	($0.00)	$0.00	$0.00	$0.00	$0.02

The Company maintained a similar level of profitability from 2005 to 2006 with the main difference between the two years being the gain on the conversion of Class A preferred shares of $2,068,157 in 2005.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased marginally by $32,026 from $1,614,752 in 2005 to $1,582,726 in 2006. The $ 189,197 increase in gross profit plus the $53,225 increase in gain on foreign exchange was more than offset by the $285,040 increase in Selling and Administrative expenses. EBITDA has been used by the Company historically to measure the cash flow profit generated by operations. EBITDA is also used in calculating some of the company's debt covenants for the Penfund long-term debt.

	Dec 31,2006	Dec 31,2005
Net Loss	($384,071)	$1,686,404
Add back:		
Gain on conversion class A preferred shares	–	(2,068,157)
Accrued Interest on convertible debentures	1,360,317	1,118,442
Interest on long term debt	196,180	403,815
Other interest	4,798	19,968
Amortization of capital assets	312,515	373,152
Amortization of deferred financing costs	92,987	92,987
Income taxes (recovery)	–	(11,859)
EBITDA	$1,582,726	$1,614,752

WORKING CAPITAL DEFICIENCY

The company has a working capital deficiency as reported by the classifications on the balance sheet. However, this includes the Penfund loan that has been classified as a current liability due to the fact that it is due May 31, 2007 and that it is expected that the Penfund loan will be paid in full at that time. The Company was in compliance with the Penfund loan covenants for the all of 2006. The Convertible debentures are also classified as a current liability as they mature on June 30, 2007. The company is evaluating various alternatives to refinance the debt. The Royal Bank has removed all of the covenants it previously had as part of the bank line of credit facility. The company continues to meet all of its obligations in a timely manner.

CASH FLOW

During 2006 the Company paid $814,814 in principal and $413,705 in accrued interest and interest expense on its long-term debt. The Company also made $197,574 worth of investment in capital assets, to benefit future revenue and expenses. Cash flow for the year was positive $208,623 and the company's bank line of credit was reduced by $220,000. The company continues to manage accounts receivable closely, keeping the average aging of receivables in the 40 days outstanding range.

CAPITAL EXPENDITURES

During 2006, the Company made an investment in capital assets in the amount of $197,574, as compared with the $114,697 invested during 2005. The largest investment was in the orthotic ordering system equipment pool to meet the demand for trial and rental systems from customers. In addition investments were made in software and hardware upgrades including the purchase of a new IBM AS/400 to improve the performance of our internal operation and to protect and insure the security of our operating systems.

CONVERTIBLE DEBENTURES

The Company's convertible debentures mature on June 30, 2007. The Company will evaluate various alternatives to refinance this debt. There can be no assurance that the company will be able to repay the debentures and if it is able to repay or refinance the debentures there is no assurance that this could be done under favorable terms.

PENFUND LOAN

The Penfund loan matures on May 31, 2007. On that date the company expects to be making the final payments due under the loan agreement including a bonus interest payment of $425,000. The company expects no problem in meeting this obligation.

DEBT COVENANTS

During 2006, the company was in compliance with all of its financial covenants.

FINANCIAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

	2007	2008	2009
Lease payments	$ 172,190	$ 172,781	$ 175,652
Penfund loan - Principal	444,445	–	—
Penfund loan – Interest	437,814	–	—
Convertible debentures	17,195,112	—	—
Total Commitments	$ 18,249,561	$ 172,781	$ 175,652

2006 FOURTH QUARTER RESULTS

Fourth quarter revenue for 2006 increased $227,372 or 7.4%, from $3,094,793 in 2005 to $3,322,165 in 2006. Increased sales of our new product lines more than offset the negative impact of foreign exchange and increased competition. EBITDA decreased $124,378 in the fourth quarter of 2006 to $325,403 from the $449,781 achieved for the fourth quarter of 2005. Improvements in revenue were offset by increased yearend fixed cost adjustments for administrative expenses. Net loss for the fourth quarter of $157,170 is a $2,210,599 decrease over the income the company achieved for the fourth quarter of 2005 of $2,053,449. The $2,068,157 gain on conversion of preferred shares in 2005 is the main difference, year to year.

2007 FINANCIAL OUTLOOK

Projecting moderate growth for 2007, management believes that profitability will be in the same range in 2007 as experienced during 2006. Though management tries to mitigate foreign exchange fluctuations using forward contracts, an unfavourable foreign exchange move during the year, could lead to a negative impact on operating results.

The Company's convertible debentures mature on June 30, 2007. The Company will evaluate various alternatives to refinance this debt. There can be no assurance that the company will be able to repay the debentures and if it is able to repay or refinance the debentures there is no assurance that this could be done under favorable terms.

TRANSACTIONS WITH RELATED PARTIES

The company has had no related party transactions during 2006.

OVERSIGHT ROLE OF THE AUDIT COMMITTEE

The Audit Committee reviews, with management, the Company's quarterly MD&A and related consolidated financial statements and approves the release to shareholders. Management also periodically presents to the Audit Committee a report of their assessment of the Company's internal controls and procedures for financial reporting.

FORWARD-LOOKING STATEMENTS

The foregoing may contain forward-looking statements. These statements are based on current expectations that are subject to risks and uncertainties, and the Company can give no assurance that these expectations are correct. Various factors could cause actual results to differ materially from those projected in such statements, including financial considerations and those predicting the timing and market acceptance of future products. The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this Cautionary Statement.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is also responsible for the design of internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

DISCLOSURE CONTROLS

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have reviewed the disclosure controls in place as at December 31, 2006 and have concluded that they provide reasonable assurance that all material information relating to the Company would be made known to them. While the CEO and CFO believe that the Company's disclosure controls and procedures provide reasonable assurance they are also aware that any control system can only provide reasonable, not absolute, assurance of achieving its control objectives.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is also responsible for the design of internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, even effective ICFR can only provide reasonable, not absolute, assurance of achieving the control objectives for financial reporting. Based on an the initial evaluation of the overall control structure and in accordance with criteria established in Multilateral Instrument 52-109 the following disclosable weaknesses existed, as at December 31, 2006 and require internal control improvements.

LIMITED RESOURCES - SEGREGATION OF DUTIES

Given the Company's size it had limited resources within the finance department to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR. As a result, the Company is highly reliant on the knowledge of a limited number of employees and on the performance of mitigating procedures during its financial close process to ensure that the consolidated financial statements are presented fairly in all material respects. As of December 31, 2006 the Company had done an initial documentation of its key accounting policies and procedures to determine where weaknesses existed. The Company has retained an experienced practitioner to assist in completing the process of comprehensively documenting and disseminating all policies and procedures that could have an impact on financial reporting. This will be completed in 2007.

TO THE SHAREHOLDERS OF
FOOTMAXX HOLDINGS INC.

We have audited the consolidated balance sheets of Footmaxx Holdings Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

April 12, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005	2006	2005
Assets		
Current assets:		
Cash	$ 322,613	$ 113,990
Accounts receivable, net	1,368,931	1,357,479
Inventory (note 2)	434,533	505,133
Other assets	69,372	38,832
	2,195,449	2,015,434
Capital assets (note 3)	533,513	648,454
Deferred financing costs	38,745	131,731
	$ 2,767,707	**$ 2,795,619**
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Bank indebtedness (note 4)	$ –	$ 220,000
Accounts payable and accrued liabilities	1,147,358	899,177
Current portion of long-term debt (note 5)	864,932	1,110,566
Current portion of debentures (note 6)	15,661,057	–
	17,673,347	2,229,743
Long-term debt (note 5)	–	786,705
Convertible debentures (note 6)	–	14,300,740
	17,673,347	17,317,188
Shareholders' deficiency:		
Capital stock (note 8)	20,248,082	20,248,082
Deficit	(35,153,722)	(34,769,651)
	(14,905,640)	(14,521,569)
	$ 2,767,707	**$ 2,795,619**

Going Concern (note 1)

Contingencies and Commitments (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director ______________________

Director ______________________

Footmaxx Holdings Inc.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2006 and 2005	2006	2005
Sales	$ 13,363,905	$ 12,568,092
Cost of goods sold	6,444,587	5,837,971
Gross profit	6,919,318	6,730,121
Expenses:		
Selling and administration	4,556,243	4,271,203
Information technology	838,136	848,728
Accrued interest on convertible debentures	1,360,317	1,118,442
Interest on long-term debt	196,180	403,815
Other interest	4,798	19,968
Foreign exchange loss (gain)	(57,787)	(4,562)
Amortization of capital assets	312,515	373,152
Amortization of deferred financing costs	92,987	92,987
	7,303,389	7,123,733
Loss before income taxes and undernoted item	(384,071)	(393,612)
Gain on conversion of class A preferred shares (note 7)	–	2,068,157
Income (loss) before income taxes	(384,071)	1,674,545
Income taxes (recovery) (note 10)	–	(11,859)
Net income (loss)	(384,071)	1,686,404
Deficit, beginning of year	(34,769,651)	(36,456,055)
Deficit, end of year	**$ (35,153,722)**	**$ (34,769,651)**
Basic earnings (loss) per common share (note 11)	$ (0.01)	$ 0.04
Diluted earnings per common share (note 11)	$ (0.01)	$ 0.02

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005	2006	2005
Cash flows from (used in) operating activities:		
Net income (loss)	$ (384,071)	$ 1,686,404
Items not involving cash:		
Amortization of capital assets	312,515	373,152
Amortization of deferred financing costs	92,987	92,987
Gain on conversion of class A preferred shares	–	(2,068,157)
Accrued interest on convertible debentures	1,360,317	1,118,442
Imputed interest on long-term debt (note 5)	(217,526)	10,681
	1,164,222	1,213,509
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(11,452)	62,231
Decrease (increase) in inventory	70,600	(50,875)
Decrease (increase) in other assets	(30,540)	63,183
Increase (decrease) in accounts payable and accrued liabilities	248,181	(158,351)
	1,441,011	1,129,697
Cash flows from (used in) financing activities:		
Decrease in bank loan	(220,000)	(40,000)
Repayments on long-term debt	(814,814)	(888,888)
	(1,034,814)	(928,888)
Cash flows used in investing activities:		
Purchase of capital assets	(197,574)	(114,697)
Net change in cash	208,623	86,112
Cash, beginning of year	113,990	27,878
Cash, end of year	**$ 322,613**	**$ 113,990**
Supplemental cash flow information:		
Interest paid on short-term debt	$ 4,798	$ 19,968
Interest paid on long-term debt	$ 413,706	$ 393,134
Non-cash transactions (note 7)		

See accompanying notes to consolidated financial statements.

The Company is in the business of manufacturing, distributing and selling foot orthotics and associated computer systems for specifying custom foot orthotics in Canada and internationally.

1. Significant accounting policies:

(a) Basis of presentation:

The accompanying consolidated financial statements include the accounts of Footmaxx Holdings Inc. and its wholly owned subsidiaries, Footmaxx International Inc., Footmaxx Limited and Footmaxx Inc. All significant intercompany balances and transactions have been eliminated upon consolidation.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Footmaxx has incurred losses over the past three consecutive years and as at December 31, 2006 has a shareholders' deficiency of $14.9 million. The Company's convertible debentures mature on June 30, 2007. The Company will evaluate various alternatives to refinance this debt. There can be no assurance that the company will be able to repay the debentures and if it is able to repay or refinance the debentures, there is no assurance that this could be done under favorable terms.

The Company's ability to continue as a going concern is dependent upon the Company being able to meet its financial covenant tests for the Penfund Mezzanine Fund, the ability to raise additional financing, the ability to renegotiate the convertible debentures, and its ability to improve profitability of the business to permit it to realize its assets and discharge its liabilities in the normal course of operations. During fiscal 2006, the Company achieved all of its financial covenants imposed by Penfund Mezzanine Fund (note 5). If the going concern assumption is not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities and the reported revenue and expenses.

(b) Inventory:

Raw materials are stated at the lower of cost and net realizable value. Cost is generally determined on the first-in, first-out basis. Work in process and finished goods are stated at the lower of average cost and net realizable value.

Computer footmats and the associated computer hardware (revenue-generating systems) that are intended for resale are included in inventory.

1. Significant accounting policies (continued):

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Terms of amortization applied by the Company to amortize the cost of the capital assets over their estimated useful lives, on a straight-line basis, are as follows:

Leasehold improvements	over the terms of the lease
Furniture, fixtures and equipment	10 years
Computer hardware	2 - 5 years
Computer software	2 - 5 years
Dies and moulds	20 years

(d) Impairment of long-lived assets:

The Company follows CICA Handbook Section 3063, "Impairment of Long-Lived Assets", which requires the Company to test for impairment loss of long-lived assets to be held and used when events or changes in circumstances occur which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

(e) Deferred financing costs:

Costs incurred to obtain long-term financing are deferred and amortized over the term of such debt.

(f) Income taxes:

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date. Future income tax assets are recognized and if realization is not considered, more likely than not, a valuation allowance is provided.

(g) Stock based compensation:

The Company has a stock-based compensation plan, which is described in note 9.

The Company follows CICA Handbook section 3870, "Stock Based Compensation and other Stock-Based Payments". These standards require that direct awards of stock or liabilities incurred, or other compensation arrangements that are based on the price of the common stock, be measured at fair value at each reporting date, with the change in the fair value reported in the statement of operations. The standard did not impact the Company's financial position.

1. Significant accounting policies (continued):

(h) Earnings per share

The Company uses the provisions of "CICA" Handbook section 3500, "Earnings per Share." Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the potential shares issuable upon conversion of convertible debt using the if converted method.

(i) Revenue recognition:

The Company recognizes revenue from sales of orthotics, proprietary computer equipment, footwear and other accessories for orthopedic products when shipment occurs, title is transferred to customers and collection is reasonably assured. Revenue is recorded at the invoice price for each product net of estimated returns and incentives provided to customers.

(j) Research and development:

Research costs are expensed in the year in which they are incurred. Development costs are expensed in the year incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. To date, there have been no deferred development costs.

(k) Translation of foreign currency:

The results of foreign operations, which are financially and operationally integrated with the Company, are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rates of exchange prevailing at year end. Capital assets have been translated at the rates prevailing at the dates of acquisition. Amortization is translated at the rates prevailing when the related assets were acquired. Revenue and expense items, other than amortization, are translated at the average rates of exchange for the year. Any exchange gains or losses are recorded in income.

(l) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Inventory:

	2006	2005
Computer footmats and hardware	$ 47,229	$ 77,155
Orthotic raw materials and components	200,984	225,428
Resale products, non-prescription insoles and sandal chassis	186,320	202,550
	$ 434,533	**$ 505,133**

3. Capital assets:

2006	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 480,451	$ 439,105	$ 41,346
Furniture, fixtures and equipment	1,012,380	904,606	107,774
Computer hardware	2,126,292	1,939,526	186,766
Computer software	1,219,321	1,219,321	–
Dies and moulds	510,432	312,805	197,627
	$ 5,348,876	**$ 4,815,363**	**$ 533,513**

2005	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 480,451	$ 407,077	$ 73,374
Furniture, fixtures and equipment	1,012,380	833,515	178,865
Computer hardware	1,928,714	1,742,559	186,155
Computer software	1,219,321	1,219,321	–
Dies and moulds	510,432	300,372	210,060
	$ 5,151,298	**$ 4,502,844**	**$ 648,454**

4. Bank loan:

The bank loan consists of an operating line of credit at the Royal Bank (maximum credit facility of $750,000), which bears interest at prime plus 1.5% and is repayable on demand. The bank credit facility is secured by a general security agreement covering all assets. This credit facility has no financial covenants as all financial covenants were removed with the renewal of the facility in March of 2005.

5. Long-term debt:

On May 31, 2002, the Company secured a loan for $4,000,000 from Penfund Mezzanine Fund to facilitate the redemption of the majority of the Series II debentures. This loan matures on May 31, 2007 and bears annual interest at a rate of 14% paid monthly. In addition, there are bonus interest payments to be paid on the yearly anniversary of the loan. These payments are $50,000 for 2003, $100,000 for 2004, $150,000 for 2005, $300,000 for 2006 and $425,000 for 2007. Factoring these bonus interest payments into account, the effective interest rate is approximately 23.2%. The imputed interest accrued to long-term debt for the year is ($217,526) (2005 - $10,681).

The total outstanding loan plus accrued interest using the effective yield method of interest is $864,932, which is comprised of $444,445, principal and $420,487 in accrued interest. The Company will make $444,445 in principal payments and $425,000 of bonus interest payments during 2007, as well as monthly interest payments based on the annual interest rate of 14%. The payments in 2007 will complete the Company's obligations under this loan agreement on May 31, 2007.

The Penfund Mezzanine Fund loan has two financial covenants as part of the agreement. The first is the ratio of concentration debt to EBITDA. Concentration debt is defined as the total of the outstanding Penfund Mezzanine Fund loan plus the outstanding Royal Bank line of credit at the end of each quarter. The covenant requires that the Company maintain a ratio of not more than 3.0 to 1.0.

The second covenant refers to the ratio of earnings before interest and taxes ("EBIT") to concentration interest with concentration interest defined as the interest on the Penfund Mezzanine Fund loan and the Royal Bank line of credit. The covenant requires that the Company achieve an EBIT to concentration interest ratio of not less than 2.0 to 1.0.

The Company achieved all of these covenants for all four quarters of 2006.

Future principal payments on the Penfund Mezzanine Fund loan are due as follows:

2007	$ 444,445

6. Convertible debentures:

The convertible debentures consist of Series I debentures with a face value of $6,556,530, Series II debentures with a face value of $1,233,149 (after repayment as disclosed in note 5), Series III debentures with a face value of $1,116,480 and Series IV debentures with a face value of $1,000,000. These convertible debentures mature on June 30, 2007. Series I became non-interest bearing as of March 31, 2002. Series II bear interest at 24%, Series III at 12% and Series IV at 14%. All interest is compounded quarterly in arrears. As at December 31, 2006, interest of $5,754,897 has accrued on these convertible debentures and is included in the balance of convertible debentures. The interest accrued is split between the debentures as follows:

		2006		2005
Series I debentures	$	822,903	$	822,903
Series II debentures		2,966,142		2,093,083
Series III debentures		1,086,989		841,274
Series IV debentures		878,863		637,320
	$	5,754,897	$	4,394,580

The principal and accrued interest, are convertible into common shares. The Series I debentures are convertible into 73,794,330 common shares of the Company at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series II debentures are convertible into 41,992,913 common shares of the Company at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series III debentures are convertible into 22,034,691 common shares at a conversion price of $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series IV debentures are convertible into 18,788,630 common shares at a price equal to $0.10 per common share, at any time, in whole or in part, at the sole option of the holder. The Series IV debentures rank senior to all other debentures but junior to the Penfund Mezzanine Fund loan. Series II and Series III debentures rank pari passu and rank senior in repayment to the Series I debentures. The convertible debentures are secured by a floating charge with respect to all of the Company's undertaking and business and all of its property, assets and rights.

No amount has been assigned to the equity component of these financial instruments as the conversion option, at the time of issuance, had a nominal value.

The majority of the convertible debentures are held by two significant shareholders.

7. Redeemable and retractable preferred shares:

During 2005 all of the class A preferred shares were converted into 3,576,670 common shares under an agreement that was signed in February 1999. The terms of the agreement were such that up until the expiration date of the agreement, the Company could cause the 4,207,847 class A preferred shares to be redeemed and converted into 3,576,670 common shares.

At the time of conversion, the fair market value of the common share was $35,767, thereby resulting in a gain on conversion of the class A preferred shares of $2,068,157.

The class A preferred shares meet the definition of a financial liability in accordance with Canadian generally accepted accounting principles and as such are presented as liabilities in the financial statements:

	2006	2005
Authorized:		
Unlimited Class A preferred shares, voting, cumulative dividends, if declared, at prime less 1%, non-participating, redeemable and retractable at amount paid thereon plus dividends due, with retraction based upon a retained income formula		
Issued:		
Nil class A preferred shares (2005 – Nil)	$ —	$ —

8. Capital stock:

	2006	2005
Authorized:		
Unlimited Class B preferred shares, issuable in series with rights, privileges, restrictions and conditions to be determined by the directors on issue		
Unlimited common shares		
Issued:		
41,131,205 (2005 – 41,131,205) common shares	$ 20,248,082	$ 20,248,082

During 2005, capital stock increased by $35,767 as a result of conversion of preferred shares to common shares (see note 7).

8. Capital stock (Continued)

In November 2002, the Board of Directors granted an additional 1,726,932 options to the President of the Company at an exercise price of $0.10. Simultaneously, the Board approved a loan of $178,831 to the President to allow him to exercise 1,788,311 options. These options vested immediately. These options were exercised on December 30, 2002. On the date of exercise, the fair value of the options was $71,533 and was accounted for as a direct award of stock as a charge to selling and administration expense in the consolidated statements of operations and deficit. The loan has no fixed terms of repayment, is non-interest bearing and is secured by the value of the shares. For accounting purposes, the net amount of the loan of $107,298 has been deducted from capital stock.

9. Stock option plan:

	2006			2005		
	Number of shares		Weighted average exercise price	Number of shares		Weighted average exercise price
Outstanding, beginning of year	1,014,871	$	0.10	1,478,121	$	0.10
Retired	1,014,871		0.10	463,250		0.10
Outstanding, end of year	—	$	—	1,014,871	$	0.10
Stock options exercisable, end of year	—	$	—	1,014,871	$	0.10
Weighted average remaining contractual life	N/A			0.76 years		

The Company had previously granted stock options to employees, directors and members of the advisory board of the Company. The stock options vested over varying time periods from the date of grant to four years and expire approximately five years from the date of grant. As of December 31, 2006, all of the options have expired and none remain outstanding.

10. Income taxes:

The average statutory Canadian income tax rate for the year ended December 31, 2006 was 36.12% (2005 - 36.12%). A comparison of nominal provisions at these rates, with the amounts provided in the consolidated statements of operations and deficit, is as follows:

		2006		2005
Income (loss) before income taxes	$	(384,071)	$	1,674,545
Nominal tax expense (recovery) at average statutory Canadian income tax rate	$	(138,726)	$	604,845
Non-taxable redemption of class A preferred shares		–		(747,018)
Expiry of non-capital loss carry-forwards		395,675		44,338
Decrease in US timing differences due to exchange rate fluctuations		–		40,106
Increase (decrease) in income taxes due to change in valuation allowance		(293,644)		37,997
US State income taxes		–		(11,859)
Other		36,695		19,732
	$	–	$	(11,859)

A summary of the principal components of future tax assets and liabilities at December 31 are as follows:

		2006		2005
Future tax assets:				
Non-capital loss carry forwards	$	6,708,348	$	6,885,562
Capital assets		777,565		769,722
Inventory		895,129		895,129
General reserves and goodwill		13,561		40,935
Interest		1,192,335		1,191,312
Unrealized foreign exchange loss		–		147,771
		9,586,938		9,930,431
Less valuation allowance		9,511,190		9,804,834
		75,748		125,597
Future tax liabilities:				
Unrealized foreign exchange gain		–		33,865
Capital assets		75,748		91,732
		75,748		125,597
Net future tax assets	$	–	$	–

10. Income taxes (continued):

The Company has available non-capital loss carry forwards for income tax purposes of approximately $18,600,000 (2005 - $19,100,000) to be applied against future years' taxable income, the benefit of which has not been recorded in the accounts of the Company. The losses expire as follows:

2007	$ 210,393
2009	1,647,465
2010	4,685,161
2014	1,874,591
2015	1,762,220
2018	4,757,377
2019	1,866,297
2026	1,768,887
	$ 18,572,391

11. Earnings (loss) per common share:

	2006	2005
Numerator of basic EPS calculation:		
Net income (loss)	$ (384,071)	$ 1,686,404
Denominator:		
Denominator for basic net earnings (loss) per share		
– weighted average shares outstanding	41,131,205	37,852,590
Effect of dilutive potential common shares issuable:		
– under conversion of debentures	156,610,564	131,822,974
Denominator for diluted net earnings (loss) per share	197,741,769	169,675,564
Basic earnings (loss) per common share	$ (0.01)	$ 0.04
Fully diluted earnings per common share	$ (0.01)	$ 0.02

For fully diluted loss per share in 2006, the numerator is $976,246. This difference is due to the accounting for convertible debentures which requires them to be treated "as if converted" for purposes of fully diluted earnings per share.

As the Company experienced a loss for the year ended December 31, 2006, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of loss per share for the year.

12. Related party transactions:

The Company had no other related party transactions for the year ended December 31, 2006 and 2005, except those related to the debenture holders outlined in note 6.

13. Commitments:

Minimum lease payments, excluding property taxes and other costs, are approximately as follows:

Year	Amount
2007	$ 172,190
2008	172,781
2009	175,652
2010	30,807
	$ 551,430

14. Financial instruments:

Interest rate and credit risk:

Interest rates, maturities and security affecting the interest and credit risk of the Company's financial assets and liabilities have been disclosed in notes 4, 5 and 6.

Derivative financial instruments:

The Company utilizes certain financial instruments, principally forward currency exchange contracts to manage the risk associated with fluctuations in currency exchange rates to reduce the impact on the Company's sales, purchases of materials and equipment. The Company's policy is not to utilize financial instruments for trading or speculative purposes. As at December 31, 2006, the Company has committed to sell a total of US$2,050,000 and buy a total of US$400,000 at an average exchange rate of 1.1358, with maturity dates ranging from January 2007 to December 2007. At December 31, 2006, the unrealized calculated losses on these contracts was approximately $58,000 (2005 - $73,000 gain). The unrealized calculated losses at December 31, 2006 have been recorded in the 2006 Statement of Operations and Deficit.

Foreign currency risk:

The Company undertakes revenue and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. A portion of this risk has been mitigated through forward currency exchange contracts, as described above.

The carrying values of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

Due to the Company's circumstances, the fair value of the debt cannot be reliably determined.

15. Segmented information:

The Company operates in Canada and internationally in one dominant industry segment (foot orthotics and associated computer systems). Revenue is attributed to geographic areas based on location of customer. International sales are predominantly sales to the United States.

		2006		2005
Revenue:				
Canada	$	6,871,840	$	5,891,511
International		6,492,065		6,676,581
	$	**13,363,905**	**$**	**12,568,092**
Gross profit:				
Canada	$	3,715,770	$	3,196,716
International		3,203,548		3,533,405
	$	**6,919,318**	**$**	**6,730,121**
Capital assets:				
Canada	$	323,803	$	407,491
International		209,710		240,963
	$	**533,513**	**$**	**648,454**

Footmaxx Board of Directors & Officers

May 2007

David Banks – Director & Chairman
Lawrence & Company

Michael Cohen – Director
Vice President
Vengrowth Private Equity Partners Inc.

John R. (Ted) Kennedy – Director

Jon Kelly – Officer
CFO
Footmaxx Holdings Inc.

Grant McCutcheon – Director
Lawrence & Company

Michael A. Kehoe – Director

Lenny Simak – Officer & Director
President & CEO
Footmaxx Holdings Inc.

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FMX (TSX Venture Exchange)

STOCK CERTIFICATE CUSIP NUMBER:
344910 20 3

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STATE OF INCORPORATION
Footmaxx Inc. Delaware, USA (1996)

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