

In-Touch Survey Systems Ltd. (TSXV: INX) – Revenues Up 63% YOY in Q3

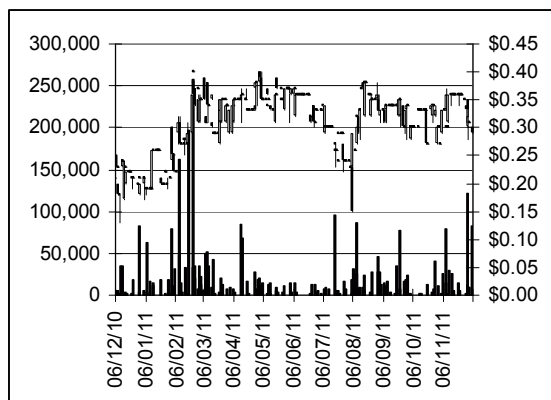
Sector/Industry: Mobile Data Capture

www.intouchinsight.com

Market Data (as of December 8, 2011)

| | |
|---------------|------------------|
| Current Price | C\$0.28 |
| Fair Value | C\$0.70 (↓) |
| Rating* | BUY |
| Risk* | 4 (Speculative) |
| 52 Week Range | C\$0.13 -C\$0.40 |
| Shares O/S | 14.74mm |
| Market Cap | C\$4.13 mm |
| Current Yield | N/A |
| P/E (forward) | 8.24 |
| P/B | 2.57 |
| YoY Return | 38.1% |
| YoY TSX-V | -27.7% |

*see back of report for rating and risk definitions



Investment Highlights

- **Q3 2011 was the company's seventh consecutive quarter of revenue growth and profitability (QOQ - quarter over quarter).**
- **In-Touch reported Q3 2011 revenues of \$2.76 million, up 63% YOY.** Net income was \$0.20 million (EPS: \$0.01) in Q3 2011, compared to \$0.38 million (EPS: \$0.02) in Q3 2010. The lower net income was primarily a result of increased expenditures on sales/marketing and product development. A loss on the fair value of the bank loan derivative also contributed to the lower net income.
- We have raised our revenue projections for FY 2011 to \$8.51 million (previously \$7.41 million), and our FY 2012 estimate to \$9.34 million (previously \$8.28 million). Due to increased product development and other expenses, we have lowered our EPS forecast to EPS: \$0.03 for FY 2011 (previously EPS: \$0.09), and EPS: \$0.06 for FY 2012 (previously EPS: \$0.10).
- Working capital was \$0.68 million as of September 30, 2011, compared to \$0.78 million at the end of FY2010. The lower working capital was due to the reclassification of debt to current liabilities and the associated derivative of the BDC loan. The company's operating line of credit was \$0.14 million (\$0.31 million remaining available) as of September 30, 2011, compared to \$0.08 million in June 2011. **In-Touch anticipates entering into a new contract with a major Canadian bank or BDC for a term loan to finance the long-term debt that just became current.**
- The company is continuing to release its new "In-Touch Apps" which are software tools that allow for rapid development of mobile/onsite data collection applications.
- INX's shares are currently trading at a P/E of just 8.24x versus the industry (Data Processing and Outsourcing) average of 16.6x.

Financial Summary (Q3 2011)

| (C\$) | 2008 | 2009 | 2010 | 2011E | 2012E |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 5,914,814 | 5,479,081 | 5,893,125 | 8,514,460 | 9,340,738 |
| Gross Margin | 60.75% | 59.84% | 63.94% | 55.63% | 58.07% |
| Net Income | (177,206) | (440,377) | 736,692 | 500,964 | 890,571 |
| EPS (diluted) | (0.01) | (0.03) | 0.05 | 0.03 | 0.06 |
| Cash | 2,971 | 14,239 | 45,140 | 339,685 | 1,460,168 |
| Assets | 3,119,660 | 2,546,088 | 2,310,152 | 3,643,488 | 4,651,372 |
| Debt to Capital | 71.57% | 83.58% | 38.37% | 27.19% | 27.39% |
| ROE | -29.90% | -97.57% | 115.89% | 38.10% | 42.34% |
| ROIC | -8.18% | -19.88% | 38.52% | 24.11% | 40.61% |

In-Touch Survey Systems develops data collection software, which provides business to business (B2B) and business to consumer (B2C) companies mobile, real time information on customer leads, customer feedback, employee feedback and product analysis as well as mobile marketing services. INX's solutions allow companies to better understand their clientele and business in real time, connect with clients in a new and engaging way via mobile devices and integrate mobile devices to company software.

Corporate Outlook

In-Touch provides mobile, real-time information about customer leads, customer feedback, operational compliance, employee feedback and new product analysis to companies in a variety of sectors including retail, automotive, financial and hospitality. These industries in the U.S. are currently reporting their third quarter financials, with 98% of the S&P 500 companies having already reported as of December 1, 2011. **On average, 70% of the companies reported earnings above expectations. We believe the better than expected earnings should boost the confidence of the corporate world, encouraging internal investments in marketing, sales and operations.** Below is a summary of the current earnings reported by sector for the S&P 500.

| Sectors | Q3 2011 Growth Rate | Below expectations | Matching expectations | Above expectations | Percent reported |
|--------------------|---------------------|--------------------|-----------------------|--------------------|------------------|
| Consumer Disc. | 21.9% | 24% | 11% | 65% | 97% |
| Consumer Staples | 9.5% | 22% | 10% | 68% | 95% |
| Energy | 58.9% | 24% | 7% | 69% | 100% |
| Financials | 12.4% | 30% | 8% | 62% | 99% |
| Health Care | 9.4% | 10% | 10% | 80% | 100% |
| Industrials | 20.8% | 7% | 14% | 80% | 97% |
| Materials | 32.1% | 26% | 6% | 68% | 100% |
| Technology | 9.7% | 12% | 14% | 74% | 99% |
| Telecom | 15.6% | 50% | 12% | 38% | 100% |
| Utilities | 1.8% | 18% | 5% | 76% | 100% |
| S&P 500 | 17.9% | 20% | 10% | 70% | 98% |

Source: Thomson Reuters Directors's report. Data as of 12/1/2011.

Source, Reuters.com

Financials

In-Touch reported Q3 2011 revenues of \$2.76 million, up from \$1.69 million in Q2 2010 (63% YOY increase). For the nine months ended September 30, 2011, In-Touch achieved revenues of \$5.91 million compared to \$4.31 million in the previous year, a 37% YOY increase.

Management has stated that 40% of the increased revenues in Q3 were a result of an outsourcing and transfer agreement with Global Compliance Services (GCS) and the remaining 23% was due to organic growth. In the outsourcing and transfer agreement, In-Touch provides all manual data collection (MDC) services to existing GCS clients until the end of their contracts (majority of the contracts end December 31, 2011, and the remainder in Q1 2012). **This has resulted in an increase in revenues of nearly 150% YOY in the MDC segment. In-Touch will also be able to solicit future business with current and past clients of GCS** resulting in potential new clients as a result. In-Touch is required to pay GCS a royalty of 10% for the first 12 months and 5% for the next 12 months on revenues of outsourced customers to a maximum of \$3.5 million of revenues from outsourced clients. We believe the agreement offers In-Touch an extremely attractive opportunity to attract new

clients and further increase its revenue base.

The 23% organic growth in revenue was largely due to In-Touch's continued focus and investment in its sales and marketing initiatives and growth from the new IMS (Information Management Systems) segment. In FY2011, In-Touch has moved away from the market research segment of their business to focus on the other, higher margin, segments. **We continue to expect healthy organic growth as global markets improve and the IMS segment continues to gain traction.**

Because of the increased revenues from the outsourcing and transfer agreement, and strong organic growth, **we have increased our revenue projections for FY 2011 to \$8.51 million and FY 2012 to \$9.34 million.** Our previous estimates were \$7.41 million for FY 2011, and \$8.28 million for FY 2012.

Net income for Q3 2011 was \$0.20 million compared to \$0.38 million in Q3 2010. For the nine months ending September 30 2011, In-Touch produced net income of \$0.35 million compared to \$0.61 million in the previous year. The lower net income was primarily due to increased expenditures on marketing/selling and product development. In addition, a different platform is used for the manual data collection services that In-Touch is providing to GCS clients. As a result, a higher cost of goods/services sold is incurred by In-Touch until the outsourced clients are moved to the In-Touch platform. Management expects the migration from GCS's platform to In-Touch's platform to take between 6 to 12 months.

YTD gross margins have decreased to 56%, compared to 64% in the same period of 2010. We expect margins to increase slightly going forward as the additional costs from the outsourcing agreement are eliminated over the next year. Gross margins remain within management's expectation of 55-60%.

As mentioned, In-Touch continues to invest heavily in product development and selling/marketing. Product development increased significantly from \$70,780 in Q3 2010, to \$137,761 in Q3 2011 (95% YOY increase). **We believe R&D is fundamental to the success of technology companies due to the rapid development in technology and we feel In-Touch's increased focus and ability in this area will continue to allow it to achieve healthy organic growth.**

Selling expenses have increased from \$78,721 in Q3 2010, to \$231,311 in Q3 2011, a 294% increase. The increase in selling expenses was primarily a result of the new IMS division and In-Touch aggressively seeking new business opportunities. Marketing expenses increased from \$16,141 in Q3 2010, to \$71,723 in Q3 2011. We expect these expenses to continue to increase in-line with revenues. General and Administration expenses increased from \$462,454 in Q3 2010, to \$592,754 in Q3 2011, a 28% increase. The increase in G&A was primarily a result of the increased revenue and resulting staffing increase and salaries. In the first week of September, In-Touch opened a new office in Charlotte, North Carolina to support its growing revenue base. The new office is staffed by 8 employees in sales and operations. Management expects G&A expenses to continue to increase as revenues increase.

Liquidity position: In Q3 2011, In-Touch had negative cash flows from operations of (\$707). For the nine months ending September 30 2011, cash from operations were \$0.14 million. The negative cash flows from operations in Q3 were largely caused by an increase in unbilled receivables and as the company continues to heavily investing in product development and selling/marketing initiatives. We do not see the increase in unbilled receivables as a concern since historically, the company has been able to collect receivables with only minimal losses.

As of September 30 2011, the company had a cash position of \$0.03 million and working capital of \$0.68 million. Working capital has been mostly lower in 2011 compared to 2010 because of the BDC loan and related derivative being reclassified to current liabilities (due in April 2012). **In-Touch plans to refinance the BDC debt through a major Canadian bank or BDC; we believe the company will be successful in refinancing this debt based on the continued improvements in liquidity and cash flows in recent years (see cash flow and liquidity charts below).**

In-Touch has been in negotiations with BDC regarding the current loan and derivative and have reached an agreement of a final bonus payment of \$398,243. The final bonus payment will be converted to a four-year term loan bearing interest at 13.5% and will be subject to a cash flow sweep of excess available funds to a maximum of \$50,000 per year. Our model assumes the company will be subject to the maximum cash flow sweeps each year.

The bank operating line of credit was \$0.14 million as of June 30, 2011, compared to \$0.08 million on June 30, 2011. Long-term debt has decreased to \$0.06 million compared to \$0.44 million as of March 31, 2011, due to the reclassification to current debt (\$0.40 million, current debt).

Below is a chart summarizing the company's cash flows:

| Cash Flows | 2008 | 2009 | 2010 | 2011E | 2012E |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Cash Flow from Operations | (48,824) | 429,207 | 755,227 | 473,546 | 1,394,441 |
| Cash Flow from Financing | 290,866 | (376,318) | (632,292) | (34,521) | (19,285) |
| Cash Flow from Investing | (322,196) | (64,492) | (92,034) | (144,479) | (254,673) |
| FCFF | (190,049) | 519,476 | 758,160 | 385,962 | 1,184,439 |

The following chart summarizes the company's liquidity position:

| Liquidity Analysis | 2008 | 2009 | 2010 | 2011E | 2012E |
|------------------------------|--------|----------|---------|---------|-----------|
| Working Capital | 14,552 | (63,501) | 782,842 | 937,055 | 2,532,691 |
| Current Ratio | 1.01 | 0.96 | 2.13 | 1.47 | 2.82 |
| Debt / Capital | 0.72 | 0.84 | 0.38 | 0.27 | 0.27 |
| EBIT Interest Coverage Ratio | (1.9) | 0.1 | 10.2 | 14.2 | 20.9 |

Stock Options and Warrants: The company has 1.72 million options outstanding with an average exercise price of \$0.19 and no warrants outstanding. Currently, 1.70 million options are "in-the-money"; however, only 248,334 are currently exercisable (options typically have an average vesting period of 3 years). If the vested options were exercised, In-Touch would

Stock Options and Warrants

be able to raise an additional \$24,833. Below is a summary of the options on the company's shares.

| Stock Options | Exercise Price | Remaining Years |
|------------------|----------------|-----------------|
| 745,000 | \$0.10 | 1.67 |
| 270,000 | \$0.20 | 2.58 |
| 170,000 | \$0.235 | 2.83 |
| 510,000 | \$0.28 | 2.92 |
| 20,000 | \$0.33 | 2.75 |
| 5,000 | \$0.36 | 2.83 |
| 1,720,000 | \$0.19 | |

Discounted Cash Flow Valuation:

Valuation

Our Discounted Cash Flow valuation (DCF) on In-Touch is \$0.68. Due to the increased expenses, we expect the company to start paying taxes in 2017 (compared to 2015 in the initiating report), which explains the drop in Funds From Operations (FFO) in that year.

| DCF Valuation Model: In-Touch | | | | | | | | |
|-------------------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (C\$) | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | Terminal |
| FFO | \$1,091,619 | \$1,241,604 | \$1,427,682 | \$1,640,510 | \$1,693,447 | \$1,803,256 | \$1,346,338 | \$1,288,148 |
| Investment in WC | (\$618,073) | \$152,837 | \$89,498 | (\$90,883) | (\$59,924) | (\$72,200) | (\$48,461) | (\$33,532) |
| CFO | \$473,546 | \$1,394,441 | \$1,517,180 | \$1,549,627 | \$1,633,523 | \$1,731,055 | \$1,297,877 | \$1,254,616 |
| CAPEX | (\$194,673) | (\$254,673) | (\$236,957) | (\$245,251) | (\$253,835) | (\$262,719) | (\$271,914) | (\$281,431) |
| FCF | \$278,873 | \$1,139,768 | \$1,280,223 | \$1,304,376 | \$1,379,688 | \$1,468,336 | \$1,025,963 | \$973,184 |
| Debt Inflows (Outflows) | (\$174,876) | (\$19,285) | (\$226,618) | (\$172,400) | (\$172,400) | (\$268,123) | \$0 | - |
| FCF to Equity | \$103,997 | \$1,120,483 | \$1,053,605 | \$1,131,976 | \$1,207,288 | \$1,200,213 | \$1,025,963 | \$973,184 |
| PV | \$101,180 | \$976,734 | \$822,898 | \$792,141 | \$756,960 | \$674,244 | \$516,401 | \$5,790,024 |
| Discount Rate | 11.61% | | | | | | | |
| Terminal Growth Rate | 3% | | | | | | | |
| Total PV | \$10,430,581 | | | | | | | |
| Cash (beg. of the year) | \$45,140 | | | | | | | |
| Equity Value | \$10,475,721 | | | | | | | |
| Shares O/S (dil) | 15,326,372 | | | | | | | |
| Value per share | \$0.68 | | | | | | | |

The discount rate was calculated using the following information:

| Discount Rate Calculation using CAPM | Internet | Info Services | Computer Software |
|--------------------------------------|---------------|---------------|-------------------|
| Industry average Betas* | 1.11 | 1.1 | 1.06 |
| Average of industries | 1.09 | | |
| Premium of 10% added to Beta** | 1.19 | | |
| 10-year Government bond yield | 2.09% | | |
| Market Risk Premium | 8.00% | | |
| Discount Rate | 11.61% | | |

*Consensus estimates (from several sources)

** We added a 10% premium to the betas due to the size and stage of the company

Sensitivity of discount rate to value per share:

We initiated coverage when the discount was 12.69%, due to decreasing yields in government bonds (risk-free rate), the discount rate has dropped to 11.61% (which we use in the current valuation). Below is a chart showing the sensitivity of the DCF value per share to the discount rate.

| Discount rate | 10.50% | 11.61% | 12.69% | 13.50% | 14.50% |
|------------------------|--------|--------|--------|--------|--------|
| Value per share | \$0.78 | \$0.68 | \$0.61 | \$0.57 | \$0.52 |

Comparables Analysis:

Below is a chart showing the valuation metrics of industries which we believe are comparable to In-Touch. As In-Touch provides services related to all the industries, we decided to compare the average metric of all these industries with those of In-Touch. **As seen in the chart below, In-Touch appears to be undervalued based on every metric. We have removed the market research industry from the table below (compared to our previous reports) as In-Touch is moving away from this segment.** The average industry metrics (trailing) have declined slightly from our previous report; however, In-Touch remains well below these averages. Although In-Touch should be trading at a discount to the industry average metrics (due to its smaller size), we do not believe the current large discounts reflect the potential of the company.

| Industry/Metric | EV/Sales | EV/EBITDA | P/E |
|---|-----------------|------------------|--------------|
| Info Tech | 1.2 | 7.6 | 14.4 |
| Software & Services | 2.1 | 9.5 | 17.2 |
| Data Processing and Outsourced Services | 2.5 | 9.4 | 17.1 |
| Internet Software and Services | 3.7 | 12.5 | 22 |
| Average of Industry Metrics (trailing) | 2.38 | 9.75 | 17.68 |
| In-Touch (trailing metrics) | 0.79 | 4 | 5.30 |
| In-Touch (forward metrics) | 0.60 | 2.77 | 8.57 |

Conclusion

Based on the new DCF valuation, and our analysis, we maintain our BUY rating and lower our fair value estimate from \$0.88 per share to \$0.70 per share.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The data capture industry is highly competitive and barriers to entry to the market are not high.
- Like any other technology company, INX will be adversely affected if it is not able to cope with changes in technology.
- Revenues from the U.S. account for approximately 42% (9 months ending September

30, 2011) of total revenues. Therefore, the company's near-term prospects depend on the US economic recovery.

- Like all other companies, the overall performance of the company depends heavily on market growth.
- Foreign exchange fluctuation risks.

We rate the shares Risk 4 (Speculative).

| BALANCE SHEETS | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| (in C\$) | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E |
| Assets | | | | | | |
| Cash | 83,124 | 2,971 | 14,239 | 45,140 | 339,685 | 1,460,168 |
| Accounts receivable | 1,272,256 | 1,475,356 | 1,311,553 | 1,314,997 | 2,073,279 | 2,090,512 |
| Unbilled receivables | 25,927 | 96,037 | 165,857 | 34,340 | 397,087 | 172,331 |
| Investment tax credit receivable | 7,928 | 7,928 | 7,928 | 15,449 | - | - |
| Inventory | - | 49,950 | - | - | - | - |
| Prepaid expenses and deposits | 29,925 | 44,012 | 42,980 | 67,073 | 107,359 | 200,055 |
| Current Assets | 1,419,160 | 1,676,254 | 1,542,557 | 1,476,999 | 2,917,409 | 3,923,068 |
| PP&E | 885,515 | 1,166,079 | 903,531 | 733,153 | 626,079 | 628,304 |
| Franchise | - | - | - | - | - | - |
| Intangible assets | 15,870 | 105,117 | - | - | - | - |
| Goodwill | 100,000 | 172,210 | 100,000 | 100,000 | 100,000 | 100,000 |
| Total Assets | 2,420,545 | 3,119,660 | 2,546,088 | 2,310,152 | 3,643,488 | 4,651,372 |
| Liabilities & Shareholders' Equity | | | | | | |
| Bank Indebtedness | 295,000 | 613,962 | 496,261 | - | 140,355 | 140,355 |
| Accounts Payables & Accrued Liabilities | 494,908 | 624,414 | 593,624 | 378,134 | 1,035,391 | 1,073,403 |
| Due to related party | 40,000 | - | - | 40,000 | 10,949 | - |
| Deferred revenue | 272,230 | 182,107 | 376,265 | 129,465 | - | - |
| Current portion of L-T debt | 191,359 | 147,447 | 114,967 | 146,558 | 395,416 | 176,618 |
| Derivative financial instrument | - | - | - | - | 398,243 | - |
| Current portion of debentures payable | - | - | - | - | - | - |
| Current portion of capital lease obligations | - | 93,772 | 24,941 | - | - | - |
| Current Liabilities | 1,293,497 | 1,661,702 | 1,606,058 | 694,157 | 1,980,354 | 1,390,376 |
| Due to related parties | - | - | - | - | - | - |
| Long term debt | 495,979 | 756,946 | 639,381 | 448,900 | 54,218 | 662,923 |
| Obligations under capital lease | - | 29,060 | - | - | - | - |
| Deferred lease inducement | 8,385 | 4,581 | 778 | - | - | - |
| Derivative financial instrument | 89,398 | 15,302 | 49,258 | 146,367 | - | - |
| Shareholder's Equity | | | | | | |
| Share capital | 8,029,871 | 8,288,867 | 8,288,867 | 8,302,716 | 8,302,716 | 8,302,716 |
| Contributed surplus | - | 37,750 | 76,671 | 96,245 | 183,469 | 282,055 |
| Deficit | (7,496,585) | (7,673,791) | (8,114,168) | (7,377,476) | (6,876,512) | (5,985,941) |
| Accumulated other comprehensive loss | - | (757) | (757) | (757) | (757) | (757) |
| Total Liabilities & Shareholders' Equity | 2,420,545 | 3,119,660 | 2,546,088 | 2,310,152 | 3,643,488 | 4,651,372 |

| STATEMENTS OF OPERATIONS | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| (in CS) | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E |
| Sales | 5,060,576 | 5,914,814 | 5,479,081 | 5,893,125 | 8,514,460 | 9,340,738 |
| COGS | 2,089,878 | 2,321,746 | 2,200,533 | 2,125,290 | 3,777,836 | 3,916,531 |
| Gross Profit | 2,970,698 | 3,593,068 | 3,278,548 | 3,767,835 | 4,736,625 | 5,424,207 |
| Expenses | | | | | | |
| Selling Expenses | 118,816 | 178,147 | 131,155 | 165,149 | 628,860 | 747,259 |
| General & Administration | 2,275,604 | 3,357,831 | 2,817,697 | 2,373,447 | 2,492,119 | 2,816,725 |
| Research and development | 47,356 | 8,926 | 3,757 | (7,176) | 557,095 | 672,533 |
| Reorganization costs | | | | | | |
| EBITDA | 528,922 | 48,164 | 325,939 | 1,236,415 | 1,058,550 | 1,187,689 |
| Amortization | 262,740 | 267,647 | 310,462 | 267,110 | 251,553 | 252,447 |
| EBIT | 266,182 | (219,483) | 15,477 | 969,305 | 806,997 | 935,242 |
| Interest & Bank Charges | 113,239 | 115,462 | 154,761 | 94,967 | 56,896 | 44,671 |
| Earnings from operations, before undernoted | 152,943 | (334,945) | (139,284) | 874,338 | 750,101 | 890,571 |
| Amortization of deferred financing costs | (23,273) | (18,581) | (10,682) | | | |
| Amortization of discount on note payable | (51,735) | (55,019) | | | | |
| Amortization of intangible assets | (19,044) | (34,123) | (9,596) | | | |
| Gain (loss) on fair value of derivative assets | (60,212) | 74,096 | (33,956) | (97,109) | (251,877) | |
| Foreign exchange | (23,486) | 119,055 | (85,422) | (45,235) | | |
| Gain on disposal of property and equipment | 32,098 | 50,311 | 12,745 | 4,698 | 2,740 | |
| Other income (loss) | | 22,000 | | | | |
| Impairment of intangible assets and good will | (233,088) | | (174,182) | | | |
| EBT | (225,797) | (177,206) | (440,377) | 736,692 | 500,964 | 890,571 |
| Taxes/(Income Tax Recovery) | - | - | - | - | - | - |
| Net Earnings for the period | (225,797) | (177,206) | (440,377) | 736,692 | 500,964 | 890,571 |
| EPS (Diluted) | (0.02) | (0.01) | (0.03) | 0.05 | 0.03 | 0.06 |

STATEMENTS OF CASH FLOWS

| (in C\$) | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Operating Activities | | | | | | |
| Net earnings for the period | (225,797) | (177,206) | (440,377) | 736,692 | 500,964 | 890,571 |
| Items not involving cash | | | | | | |
| Share released from escrow | 51,999 | 74,667 | | | | |
| (Gain)loss on fair value of derivat | 60,212 | (74,096) | 33,956 | 97,109 | 251,877 | |
| Book value of assets sold | | | | | | |
| Compensation related to stock opt | 67,998 | 37,750 | 38,921 | 25,623 | 87,224 | 98,585 |
| Decrease in deferred lease inducer | (3,804) | (3,804) | (3,803) | (778) | | |
| loss (gain) on disposal of property | (32,098) | (50,311) | (12,745) | (4,698) | | |
| Unrealized foreign exchange loss | | 45,170 | | | | |
| other income (loss) | | (22,000) | | | | |
| impairment of intangible assets an | 233,088 | | 174,182 | - | | |
| Amortization and equipment write | 262,740 | 267,647 | 310,462 | 267,110 | 251,553 | 252,447 |
| Amortization of subordinated debenture | | | | | | |
| Amortization of discount on note j | 51,735 | 55,019 | | | | |
| Gain on settlement of the capital lease | | | | | | |
| amortization of deferred financing | 23,273 | 18,581 | 10,682 | - | | |
| Amortiaaion of intangible asset | 19,044 | 34,123 | 9,596 | - | | |
| FFO | 508,390 | 205,540 | 120,874 | 1,121,058 | 1,091,619 | 1,241,604 |
| Changes in non-cash operating working capital | | | | | | |
| Accounts receivable | (793,786) | (159,600) | 163,803 | (3,444) | (758,282) | (17,234) |
| Unbilled recievables | (15,427) | (70,110) | (69,820) | 131,517 | (362,747) | 224,756 |
| investment tax credit recievable | 9,679 | - | | (7,521) | 15,449 | - |
| Inventory | | (49,950) | 49,950 | - | - | - |
| Prepaid expenses | 19,359 | (14,087) | 1,032 | (24,093) | (40,286) | (92,697) |
| Accounts payable and accrued liab | (2,163) | 129,506 | (30,790) | (215,490) | 657,257 | 38,012 |
| Reverse takeover transaction | | | | | | |
| Deferred Revenue | 226,258 | (90,123) | 194,158 | (246,800) | (129,465) | - |
| | (556,080) | (254,364) | 308,333 | (365,831) | (618,073) | 152,837 |
| Cash from (used in) operations | (47,690) | (48,824) | 429,207 | 755,227 | 473,546 | 1,394,441 |
| Financing activities | | | | | | |
| Issue of new shares | 85,500 | 111,290 | | 7,800 | | |
| Proceeds from convertible subordinated debenture | | | | | | |
| Increase (decrease) in bank indel | 153,712 | 318,962 | (117,701) | (496,261) | 140,355 | |
| Issuance (payment) of long-term d | 485,329 | (132,462) | (160,726) | (118,890) | (174,876) | (8,336) |
| Increase in intangible asset | | | | | | |
| Payment under capital lease | | (6,924) | (97,891) | (24,941) | | |
| Other transactions | | | | | | (10,949) |
| Cash from (used in) financing ac | 724,541 | 290,866 | (376,318) | (632,292) | (34,521) | (19,285) |
| Purchase of franchise | | | (31,193) | | | |
| Business acquisitions (net of cash) | | (65,509) | | | | |
| Decrease in restricted cash | | | | | | |
| Proceeds on disposal of property e | 69,537 | 91,405 | 42,868 | 24,448 | 50,194 | - |
| Purchase of property and equipme | (714,020) | (348,092) | (76,167) | (116,482) | (194,673) | (254,673) |
| Cash from (used in) investing ac | (644,483) | (322,196) | (64,492) | (92,034) | (144,479) | (254,673) |
| Foreign exchange | | | 22,891 | | | |
| Increase (decrease) in cash | 32,368 | (80,154) | 11,288 | 30,901 | 294,545 | 1,120,483 |
| Increase in cash of discontinued operation | | | | | | |
| Cash beginning of period | 50,754 | 83,122 | 2,971 | 14,239 | 45,140 | 339,685 |
| Cash end of period | 83,122 | 2,968 | 14,259 | 45,140 | 339,685 | 1,460,168 |

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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