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Investment Analysis for Intelligent Investors

June 20, 2011

In-Touch Survey Systems Ltd. (TSXV: INX) – Note – Q1 2011 Meets Expectations

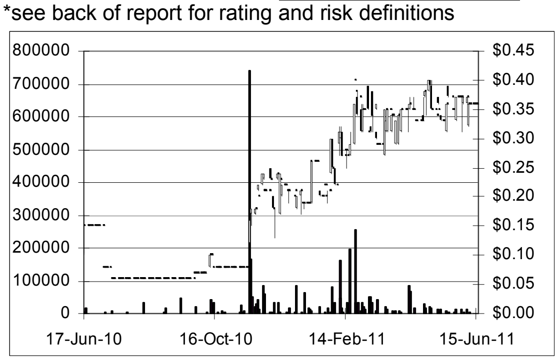
Sector/Industry: Mobile Data Capture

www.intouchinsight.com

Market Data (as of June 17, 2011)

Current Price	C$0.36
Fair Value	**C$0.89**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.06 -C$0.40
Shares O/S	14,222,979
Market Cap	C$5.12 mm
Current Yield	N/A
P/E (forward)	4.16
P/B	2.15
YoY Return	350.0%
YoY TSX-V	29.2%

*see back of report for rating and risk definitions



Investment Highlights

- **In-Touch reported Q1 2011 revenues of $1.43 million, up 8% YOY.** Net income was $0.03 million (EPS: $0.00) compared to $0.16 million (EPS: $0.01) in Q1 2010. The lower net income was primarily a result of an increased investment in sales/marketing and product development. Higher foreign currency losses, and a loss on the fair value of bank loan derivatives also contributed to the lower net income.
- Working capital was $925,128 as of March 31, 2011, compared to $782,842, and $110,414 as of December 31, 2010, and March 31, 2010, respectively. The company's operating line of credit was nil ($0.45 million available) as of March 31, 2011, down from $0.31 million in March 2010. In-Touch is continuing to improve their liquidity position.
- As mentioned in the last report, **In-Touch has launched the beta version of In-Touch Apps in May 2011,** and is expecting to release the standalone product for wide distribution by early 2012.
- <u>INX shares are currently trading at a P/E of just 4.2x versus the industry (Data Processing and Outsourcing) average ratio of 17.1x.</u>

Financial Summary (Q1 2011) (C$)	**2008**	**2009**	**2010**	**Q1 2011**	**2011E**	**2012E**
Revenue	5,914,814	5,479,081	5,893,125	1,428,242	7,414,460	8,275,238
Gross Margin	60.75%	59.84%	63.94%	66.45%	60.56%	58.28%
Net Income	(177,206)	(440,377)	736,692	28,685	1,293,183	1,508,207
EPS (diluted)	(0.01)	(0.03)	0.05	0.00	0.09	0.10
Cash	2,971	14,239	45,140	69,876	1,182,303	2,165,829
Assets	3,119,660	2,546,088	2,310,152	2,223,675	3,720,067	4,871,550
Debt to Capital	71.57%	83.58%	38.37%	31.09%	13.67%	2.39%
ROE	-29.90%	-97.57%	115.89%	-	75.75%	48.46%
ROIC	-8.18%	-19.88%	38.52%	-	71.38%	86.28%

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.

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Financials

In-Touch reported Q1 2011 revenues of $1.43 million, up from $1.32 million in Q1 2010 (an 8% YOY increase). The increased revenues were largely a result of the newly formed Information Management Services segment, which focuses on government contracts. The results are in line with our expectations and we expect the remainder of the year to show increased YOY growth in revenues. **We are expecting the IMS segment to continue to show significant growth throughout the remainder of the year** as the new segment gains traction in addition to Q1 sales typically being lower for In-Touch due to seasonal purchasing of their clients.

Net income for Q1 2011 was $0.03 million compared to $0.16 million in Q1 2010. The lower net income was a result of In-Touch increasing their selling and marketing expenses (up 54% and 51%, respectively), and product development (up 164%), as well as foreign exchange and derivative losses. The large increase in product development was primarily due to the company's increased investment to develop and launch the new "In-Touch Apps" program. **We believe the increase in product development and selling/marketing expenses is a very positive move and shows their ability to continue to expand the company's operations.** We have adjusted our model to reflect the increased investment in product development as we expect this to continue.

Revenues and Earnings forecasts – We have maintained our revenue forecasts for FY2011, and FY2012, at $7.41 million and $8.28 million, respectively. However, due to the increased product development expense, our earnings and EPS estimates were slightly lowered to $1.29 million (EPS: $0.09), and $1.51 million (EPS: $0.10), for FY2011, and FY2012, compared to $1.37 million (EPS: $0.09) and $1.59 million (EPS: $0.11) in our previous report.

Liquidity position: The company continues to generate positive cash flow from operations allowing for increased investment in product development and business growth. Below is a summary of In-Touch's cash flows.

CASH FLOWS	2009	2010	Q1 2011	2011E	2012E
Cash Flow from Operations	429,207	755,227	198,952	1,538,200	1,763,189
Cash Flow from Financing	(376,318)	(632,292)	(85,150)	(256,558)	(584,990)
Cash Flow from Investing	(64,492)	(92,034)	(89,066)	(144,479)	(194,673)
FCFF	519,476	758,160	125,829	1,450,617	1,588,511

As of March 31 2011, the company had a cash position of $0.07 million, and working capital of $0.92 million, compared to $0.04 million cash, and $0.11 working capital as of March 31, 2010. The bank operating line of credit was nil as of March 31, 2011, compared to $311,367 on March 31, 2010. Long-term debt has decreased to $445,468 compared to $611,438 as of March 31, 2010.

The following chart summarizes the company's liquidity position:

Liquidity Analysis	2008	2009	2010	Q1 2011	2011E	2012E
Working Capital	14,552	(63,501)	782,842	925,128	1,907,608	3,185,956
Current Ratio	1.01	0.96	2.13	3.09	2.76	4.19
Debt / Capital	0.72	0.84	0.38	0.31	0.14	0.02
EBIT Interest Coverage Ratio	(1.9)	0.1	10.2	9.0	23.7	76.4

Stock Options and Warrants

Stock Options and Warrants: The company has 1.04 million options outstanding with an average exercise price of $0.13 and no warrants outstanding. All the options are currently "in-the-money", if exercised; In-Touch would be able to raise an additional $131,000. Below is a summary of the options on the company's shares.

Stock Options	Exercise Price	Remaining Years
770,000	$0.10	1.92
270,000	$0.20	2.84
1,040,000	**$0.13**	

Rating

Our valuation dropped slightly from $0.89 to $0.88 per share as we slightly lowered our earnings forecasts for FY2011 and FY2012. We have not changed our fair value estimate of $0.89 per share and our BUY rating on INX (Risk: 4 Speculative).

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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