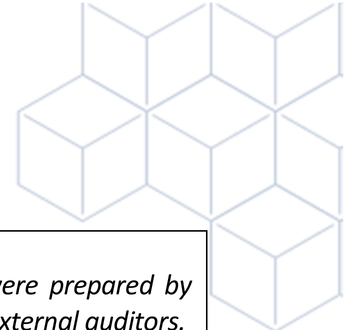

Glenbriar Technologies Inc.

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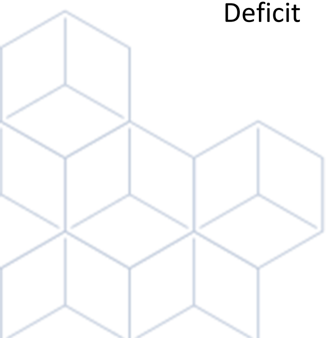
**NOTICE TO READER**

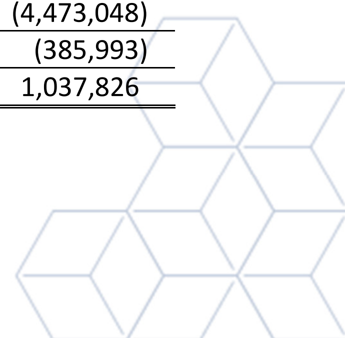
*The unaudited interim financial statements and related management discussion and analysis were prepared by management and approved by the board of directors. They have not been reviewed by Glenbriar's external auditors.*

# 2012 Q1 FINANCIAL STATEMENTS

**GLENBRIAR TECHNOLOGIES INC.**
**Condensed Consolidated Statements of Financial Position**
**December 31 and September 30, 2011 and October 1, 2010** *(unaudited)*

| | **Dec 31, 2011** **$** | Sept 30, 2011 $ | Oct 1, 2010 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | **101,506** | 118,854 | 76,832 |
| Marketable securities (note 5) | **17,712** | 17,712 | 22,543 |
| Accounts receivable | **763,770** | 636,740 | 643,058 |
| Inventory | **23,509** | 63,116 | 19,285 |
| Prepaid expenses | **41,004** | 41,004 | 15,982 |
| | **947,501** | 877,426 | 777,700 |
| **Non-current** | | | |
| Proprietary software (note 7) | **-** | - | 120,981 |
| Customer lists (note 7) | **-** | - | 37,875 |
| Property and equipment (note 6) | **58,387** | 62,887 | 101,270 |
| | **1,005,888** | 940,313 | 1,037,826 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Demand credit facilities (note 8) | **36,132** | 68,457 | 192,438 |
| Accounts payable and accrued liabilities | **682,692** | 713,346 | 647,448 |
| Deferred revenue | **217,624** | 200,425 | 159,433 |
| Loans payable – current portion (note 9) | **53,541** | 67,354 | 68,000 |
| Deferred rent – current portion | **4,090** | - | - |
| | **994,079** | 1,049,582 | 1,067,319 |
| **Non-current** | | | |
| Loans payable (note 9) | **330,000** | 330,000 | 356,500 |
| Deferred rent | **40,526** | - | - |
| | **1,364,605** | 1,379,582 | 1,423,819 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital (notes 4 and 10) | **4,264,697** | 4,263,639 | 4,087,055 |
| Deficit | **(4,623,414)** | (4,702,908) | (4,473,048) |
| | **(358,717)** | (439,269) | (385,993) |
| | **1,005,888** | 940,313 | 1,037,826 |





GLENBRIAR TECHNOLOGIES INC.
Condensed Consolidated Statements of Comprehensive Income
3 months ended December 31, 2011 and 2010 *(unaudited)*

| | 3 months ended Dec 31 | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |
| **Revenue** | | |
| Managed information services | **972,367** | 828,862 |
| Equipment and software | **696,335** | 455,124 |
| Other income | **1,032** | 20,973 |
| **Gross revenue** | **1,669,734** | 1,304,959 |
| Direct salaries and benefits | **722,209** | 550,135 |
| Cost of goods sold | **487,793** | 301,094 |
| **Gross profit** | **459,732** | 453,730 |
| **Expenses** | | |
| General and administrative | **289,758** | 265,817 |
| Sales and marketing | **89,556** | 78,165 |
| Research and development | **15,180** | 30,000 |
| | **394,494** | 373,982 |
| **Earnings before the following items** | **65,238** | 79,748 |
| Amortization of intangibles | - | 45,014 |
| Depreciation of property and equipment | **4,500** | 12,984 |
| Interest and bank charges | **5,186** | 9,068 |
| Stock compensation | **1,058** | 4,811 |
| Gain on sale of interest in related entities (note 4) | **(25,000)** | - |
| **Net income and comprehensive income** | **79,494** | 7,871 |
| **Net income per share** | | |
| Basic and diluted | **-** | - |
| **Weighted average shares outstanding** | | |
| Basic | **47,314,060** | 43,705,260 |
| Diluted | **47,314,060** | 43,931,347 |

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**GLENBRIAR TECHNOLOGIES INC.**

**Condensed Consolidated Statements of Changes in Equity**

**3 Months Ended December 31, 2011 and 2010** *(unaudited)*

| | 3 months ended Dec 31 | |
|---|---|---|
| | **2011** | 2010 |
| | **$** | $ |
| **Common Shares** | | |
| Balance, beginning of period | **4,263,639** | 4,087,055 |
| Employee share purchase plan (note 10(c)) | **1,058** | 16,573 |
| Limited partnership units (note 4) | **-** | 130,000 |
| **Balance, end of period** | **4,264,697** | 4,233,628 |
| | | |
| **Deficit** | | |
| Balance, beginning of period | **(4,702,908)** | (4,473,048) |
| Net income for the period | **79,494** | 7,871 |
| **Balance, end of period** | **(4,623,414)** | (4,465,177) |

**Condensed Consolidated Statements of Cash Flows**

**3 Months Ended December 31, 2011 and 2010** *(unaudited)*

| | 3 months ended Dec 31 | |
|---|---|---|
| | **2011** | 2010 |
| **Cash flows related to the following activities** | **$** | $ |
| **Operating** | | |
| Net income | **79,494** | 7,871 |
| Adjustments for: | | |
| Amortization and depreciation | **4,500** | 57,998 |
| Stock compensation expense | **1,058** | 4,811 |
| Gain on sale of interest in related entities | **(25,000)** | |
| | **60,052** | 70,680 |
| Changes in non-cash working capital | **(56,262)** | 20,084 |
| | **3,790** | 90,764 |
| **Financing** | | |
| Issue of common shares – net | **-** | 10,358 |
| Issue of limited partnership units | **-** | 130,000 |
| Change in loans and credit facility | **(46,138)** | (34,695) |
| | **(46,138)** | 105,663 |
| **Investing** | | |
| Capital expenditures | **-** | (1,089) |
| Net proceeds on sale of related entities | **25,000** | - |
| | **25,000** | (1,098) |
| | | |
| Increase in cash | **(17,348)** | 195,338 |
| Cash, beginning of period | **118,854** | 76,832 |
| **Net change and cash, end of period** | **101,506** | 272,170 |

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## Notes to Condensed Consolidated Interim Financial Statements

### 1. REPORTING ENTITY

On October 1, 2011, Glenbriar Technologies Inc. ("Corporation") absorbed its wholly owned subsidiary, Peartree Software Inc., by short form vertical amalgamation. Effective October 1, 2011, the Corporation disposed of its interests in Glenbriar Limited Partnership ("GLP") and Glenbriar Solutions Inc. ("GSI") to third parties (see note 4). The consolidated financial statements include the accounts of Peartree, GSI and GLP for periods ending on or before September 30, 2011, but exclude GLP and GSI after that date. The Corporation operates primarily in the information technology sector and has only one operating segment.

### 2. BASIS OF PRESENTATION

*Going concern assumption*

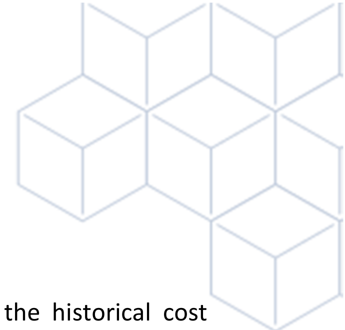
The consolidated financial statements have been prepared on a going concern basis, which presumes the Corporation will continue to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the period ended December 31, 2011, the Corporation had net income of $74,494 (2011 – $7,871), cash flow from operating activities before changes in non-cash working capital of $60,052 (2011 – $70,680), and a working capital deficiency in the amount of $46,578 as at December 31, 2011 (September 30, 2011 – $172,156). The Corporation's continuing operations are dependent on its ability to take appropriate measures, including one or more of managing cash on hand, increasing sales, reducing expenses, or raising additional equity or debt financing to meet its obligations and repay its liabilities in the normal course. See also notes 11 and 13. Although the Corporation's working capital position has improved in fiscal 2012 over 2011, there is no assurance that management will continue to be successful in implementing appropriate measures.

*Statement of compliance*

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to replace Canadian generally accepted accounting principles ("GAAP") with IFRS for fiscal years beginning on or after January 1, 2011. As these are the Corporation's first financial statements prepared using IFRS, comparative periods have been restated to comply with the updated presentation, and certain additional disclosures are provided to explain how the transition to IFRS has affected the financial statements.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), "Interim Financial Reporting" as issued by the IASB. The Corporation has applied the accounting policies it expects to adopt in its first consolidated annual financial statements using IFRS, which will be for the year ending September 30, 2012. The Corporation has applied IFRS 1, which provides certain exemptions for entities adopting IFRS for the first time, with a transition date of October 1, 2010. An opening statement of financial position as at October 1, 2010 is provided to facilitate the transition to IFRS. Although the statements of financial position for October 1, 2010 and September 30, 2011 are shown as unaudited, they are essentially the same as the audited GAAP balance sheets for September 30, 2010 and 2011, respectively, due to the limited effect that applying IFRS has had on the Corporation's financial statements (see note 15). Because the Corporation will ultimately prepare those statements of financial position and have them audited by applying IFRS with an effective date of September 30, 2012, those statements may differ from those presented at this time.

These Notes relate to the 3 months ended December 31, 2011, and should be read in conjunction with the 2011 audited annual GAAP financial statements with consideration of the various IFRS transition disclosures. The consolidated financial statements and notes were authorized for issue by the Corporation's board of directors on February 6, 2012. The Corporation's external auditors have not reviewed or commented on the unaudited portions of these financial statements and notes, but have provided guidance to management in making the transition from GAAP to IFRS.



*Basis of measurement*

The consolidated interim financial statements have been prepared on a going concern basis using the historical cost convention, except for financial assets at fair value through profit or loss, which are measured at fair value.

*Functional and presentation currency*

These consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. Foreign currency transactions are translated into the functional currency using the average rate of exchange in effect at the transaction dates. Monetary assets and liabilities relating to foreign currency transactions are recorded at rates of exchange in effect at the statement of financial position date and any resulting gains or losses recorded in income for the period.

## 3. SIGNIFICANT ACCOUNTING POLICIES

*Basis of consolidation*

If the Corporation has the power to direct the financial and operational policies of an entity to obtain benefit from their operations, the Corporation is deemed to have a controlling interest in that entity, and all such entities are consolidated into these financial statements. Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

*Measurement uncertainty*

The preparation of the Corporation's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting periods presented. Significant estimates include the assessment of recoverability of carrying values of the Corporation's accounts receivable, property and equipment, and future income tax assets. Actual results could differ from the estimates.

*Revenue recognition*

Equipment and software sales relate to proprietary software and products purchased and resold to customers. The revenue from these sales is recognized upon shipment. Software licences paid in advance for proprietary software, which include ongoing support and maintenance obligations, are deferred and recognized over the period of those obligations. Managed information services revenue is recognized as services are rendered. In cases where collectability is not reasonably assured, revenue is recognized when the cash is collected. Payments received in advance of services rendered are deferred until such time as the services are performed.

*Cash and cash equivalents*

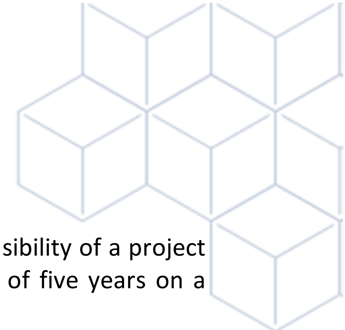
Cash and cash equivalents are comprised of cash on deposit with banks and short-term deposits with initial maturities of three months or less.

*Inventory*

Inventory is comprised mainly of equipment and spare parts, and is carried at the lower of cost and net realizable value. Cost is measured on a first-in, first-out basis.

*Proprietary software*

Research and development costs incurred prior to the establishment of the technological and financial feasibility of a particular software project are expensed as incurred. Software development costs which are directly attributable to these



activities are capitalized when certain criteria are met, including that the technological and financial feasibility of a project is established. Amortization of proprietary software is recorded over the period of expected benefit of five years on a straight line basis.

If the carrying value is determined to be unrecoverable based on future estimated undiscounted cash flows, the carrying value of the proprietary software is written down to fair value and the excess is charged to income. The fair value is based on management's estimate of discounted future cash flows from the related software asset. There was no impairment of proprietary software recorded during the period ended December 31, 2011 or 2010.

*Customer lists*

Customer lists were acquired as part of prior years' corporate acquisitions. Customer lists are amortized over the period of the expected benefit on a straight line basis over 36 months. If the carrying value is determined to be unrecoverable based on the future estimated undiscounted cash flows, the carrying value of the customer lists is written down to fair value and the excess is charged to income. The fair value is based on management's estimate of discounted future cash flows from the related customer lists. There was no impairment of customer lists recorded during the periods ended December 31, 2011 or 2010.

*Property and equipment*

Computers and office equipment are recorded at cost. Amortization is recorded using the declining-balance method at rates ranging from 20% - 30% per year. Leasehold improvements are amortized over the term of the lease. If the carrying value of an asset exceeds the projected undiscounted future net cash flow from its use and disposal, a reduction of the carrying value to the fair value would be recorded.

*Income taxes*

The Corporation uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the statement of financial position are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets. Future tax assets are recognized to the extent they are more likely than not to be realized.

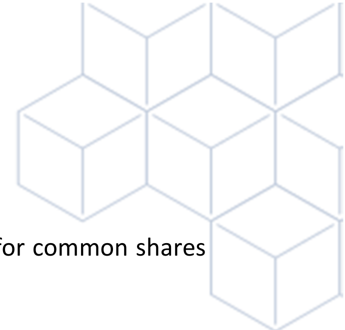
*Stock-based compensation*

The Corporation has a stock option plan as described in note 10(e). The Corporation records an expense for stock options issued based on the fair value at the date of grant, calculated using the Black-Scholes option pricing model with a corresponding credit to contributed surplus. No stock options were issued or outstanding under this plan as of December 31, 2011 or 2010.

Stock-based compensation expense represents the estimated fair value of the Corporation's quarterly contributions of treasury shares to the employee share purchase plan implemented in February 2008, as described in note 8(d). The estimated fair value of the shares issued is based on the market price at the date of issue. These contributions are expensed as incurred.

*Net income per common share*

The Corporation follows the treasury stock method to determine the dilutive effect of stock options or other potentially dilutive instruments. Under this method, basic net income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income per share is calculated on the basis of the weighted average number of common shares outstanding during the period plus the additional incremental common shares that



would have been outstanding if potentially dilutive stock options or other instruments were exercised for common shares using the treasury stock method.

*Comprehensive income, equity, financial instruments and hedges*

Financial assets are classified as loans and receivables, held-to-maturity, held-for-trading and available-for-sale. Loans and receivables include all loans and receivables except debt securities, and are accounted for at amortized cost. Held-to-maturity classification is restricted to fixed maturity instruments that the Corporation intends and is able to hold to maturity, and is accounted for at amortized cost. Held-for-trading instruments are recorded at fair value on the statement of financial position, with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available-for-sale. These are recorded at fair value, with gains or losses being recognized in other comprehensive income. Derecognition of a financial asset and other than temporary impairment losses are recognized in the statement of comprehensive income.

Financial liabilities are classified as either held-for-trading or other financial liabilities. Held-for-trading instruments are recorded at fair value with realized and unrealized gains and losses reported in the statement of comprehensive income. Other financial liabilities instruments are accounted for at amortized cost, with gains and losses reported in the statement of comprehensive income in the period that the liability recognition is derecognized or impaired.

Derivative instruments ("derivatives") are classified as held-for-trading unless designated as hedging instruments. All derivatives are recorded at fair value on the statement of financial position. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value are reported in the statement of comprehensive income and are substantially offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of the changes in the derivatives' fair values are initially recognized in other comprehensive income ("OCI"), and the ineffective portion is recorded in the statement of comprehensive income. Amounts temporarily recorded in accumulated OCI will subsequently be reclassified to the statement of comprehensive income in the periods when the net income is affected by the variability in the cash flows of the hedged item.

The Corporation has designated accounts receivable as loans and receivables, accounts payable and accrued liabilities, loans payable and demand credit facilities as other financial liabilities, all of which are carried at amortized cost. The Corporation's cash and cash equivalents, and marketable securities are classified as held-for-trading. The Corporation's cash and cash equivalents and marketable securities are carried at fair value on the statement of financial position, with any changes in the fair value recognized in the statement of comprehensive income. Fair value is determined by reference to published price quotations. The Corporation does not have any derivative financial instruments.

*Business combinations*

IFRS 3 establishes standards on the recognition and measurement of identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, as well as recognition and measurement guidance for goodwill acquired in the business combination or the gain from a bargain purchase option. IFRS 3 also provides guidance on identifying the acquirer and the acquisition date (being the date at which control is acquired), and on the presentation and disclosure to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

*Consolidated Financial Statements and Non-controlling Interests*

IAS 27 is related to IFRS 3, and establishes standards for the preparation of consolidated financial statements and specifically discusses the consolidated accounting following a business combination involving the purchase of an equity interest of one company by another. IAS 27 also provides guidance in situations involving a combination or consolidation other than through the purchase of an equity interest or involving an incorporated business.

***Future accounting policies***

*Financial Instruments*

The IASB intends to replace IAS 39, “Financial Instruments: Recognition and Measurement”, with IFRS 9, “Financial Instruments”. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity’s own credit risk. Transitional disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. IFRS 9 is effective for fiscal years beginning on or after January 1, 2015, with early adoption permitted. There will be no significant impact to the Corporation upon implementation of the published standard.

*Fair Value Measurements*

In May 2011, the IASB issued IFRS 13, “Fair Value Measurement”, which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. Prospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with early adoption permitted. The Corporation is currently assessing the impact of this standard.

*Reporting Entity*

In May 2011, the IASB issued IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, IFRS 12, “Disclosures of Interest in Other Entities” and amendments to both IAS 27, “Consolidated and Separate Financial Statements” and IAS 28, “Investments in Associates”. IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangements by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles.

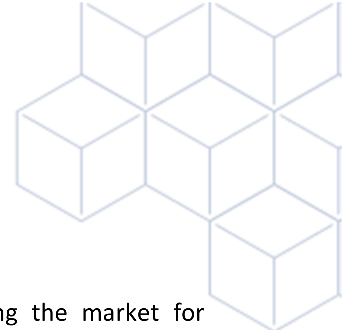
Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are collectively adopted. The Corporation is currently assessing the impact of these standards.

*Employee Benefits*

In June 2011, the IASB issued amendments to IAS 19, “Employee Benefits”, which revises the recognition, presentation and disclosure requirements for defined benefit plans. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted. There will be no significant impact to the Corporation upon implementation of the amended standard.

*Presentation of Items of Other Comprehensive Income*

In June 2011, the IASB issued an amendment to IAS 1, “Presentation of Financial Statements”, requiring corporations to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. There will be no significant impact to the Corporation upon implementation of the amended standard.



## 4. GLENBRIAR LIMITED PARTNERSHIP

GLP was an Alberta limited partnership that carried on the business of developing and extending the market for information technology solutions created or supported by the Corporation until the Corporation disposed of its interest GLP effective October 1, 2011 for $5,000. An independent director of the Corporation is CEO, a director and a minority shareholder of the purchaser of GTI's interest in GLP. The General Partner of GLP was GSI, which exercised control over GLP's operations. The Corporation disposed of its shares in GSI effective October 1, 2011 for $20,000. An independent director of the Corporation controls the purchaser of GSI. With nil cost, these dispositions make up the gain on sale of related entities in the statement of comprehensive income. During fiscal 2011, the Limited Partners of GLP were the Corporation and private investors who purchased limited partnership units ("LP Units") for $5,000 per LP Unit.

In December 2010, GLP issued 26 LP Units at a price of $5,000 each for gross proceeds of $130,000. On February 11, 2011, the Corporation purchased all of the outstanding LP Units in exchange for 100,000 common shares of the Corporation per Unit. Management, directors and employees purchased 21 LP Units. A selling concession of $2,500 was paid on the 5 LP Units not sold to management and employees.

The financial results of GLP were included in the Corporation's consolidated financial statements during fiscal 2011, since GSI had full control over GLP's operations and it was a wholly owned subsidiary of the Corporation. In addition, the Corporation had the right to acquire all the LP Units not held by it directly.

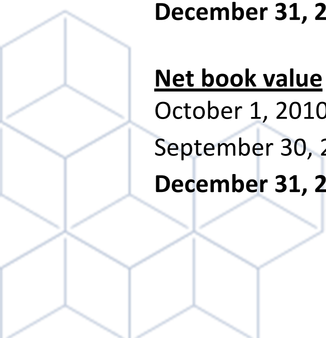
For tax purposes, the Limited Partners were entitled to deduct their share of operating losses of GLP on December 31, 2010 to a maximum of $5,000 for each LP Unit held. As a result, the Limited Partner's share of operating losses was not available to the Corporation to offset future taxable income.

## 5. MARKETABLE SECURITIES

Marketable securities are comprised of 322,038 common shares of Platinum Communications Corporation ("Platinum"), a public company traded on the TSX Venture Exchange.

## 6. PROPERTY AND EQUIPMENT

| | Computers & office equipment $ | Leasehold improvements $ | Total $ |
|---|---|---|---|
| **Cost** | | | |
| October 1, 2010 | 646,436 | 116,115 | 762,551 |
| Additions (disposals) | (856) | - | (856) |
| September 30, 2011 | 645,580 | 116,115 | 761,965 |
| Additions (disposals) | - | - | - |
| **December 31, 2011** | **645,580** | 116,115 | **761,965** |
| **Depreciation** | | | |
| October 1, 2010 | 550,550 | 110,731 | 661,281 |
| Depreciation | 32,413 | 5,384 | 37,797 |
| September 30, 2011 | 582,963 | 116,115 | 699,078 |
| Depreciation | 4,500 | - | 4,500 |
| **December 31, 2011** | **587,463** | 116,115 | **703,578** |
| **Net book value** | | | |
| October 1, 2010 | 98,886 | 5,384 | 101,270 |
| September 30, 2011 | 62,887 | - | 62,887 |
| **December 31, 2011** | **58,387** | **-** | **58,387** |



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## 7. INTANGIBLE ASSETS

| | Proprietary software $ | Customer lists $ | Total $ |
|---|---|---|---|
| **Cost** | | | |
| All dates | 998,669 | 180,172 | 1,178,841 |
| **Amortization** | | | |
| October 1, 2010 | 877,688 | 142,297 | 1,019,985 |
| Amortization | 120,981 | 37,875 | 158,856 |
| September 30, 2011 | 998,669 | 180,172 | 1,178,841 |
| **Net book value** | | | |
| October 1, 2010 | **120,981** | **37,875** | **158,856** |
| September 30, 2011 | - | - | - |
| **December 31, 2011** | - | - | - |

## 8. DEMAND CREDIT FACILITY

In April 2009, and as further amended in October 2009, the Corporation's revolving credit facility with a chartered bank was termed out based on an initial balance of $411,372, with blended monthly payments of $11,085 including interest at the greater of 6% per annum or 3.5% above the bank's prime lending rate. The credit facility was amended on March 22, 2011 removing covenants relating to current and debt to equity ratios and periodic reporting. As at December 31, 2011, the Corporation was in compliance with all terms under the credit facility. Security is provided by a first charge over all of the Corporation's assets, and a guarantee by specific officers of the Corporation. The balance as at December 31, 2011 was $31,132 (September 30, 2011 – $68,457).

## 9. LOANS PAYABLE

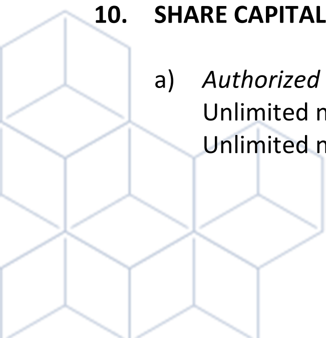
Loans payable at December 31, 2011 in the amount of $383,933 (September 30, 2011 - 397,354) consist of:

a) Net advances of $330,000 (September 30, 2011 - $330,000) from officers of the Corporation secured by a general security agreement which bear interest at the rate of interest charged from time to time by the Bank of Montreal to its personal line of credit customers plus any insurance premium which may be payable. The advances are repayable 12 months after the officers provide written request for payment. As at December 31, 2011, the officers had not requested payment, and consequently, the advances have been classified as non-current liabilities.

b) The final repayment terms of the loans payable of $104,500 outstanding at October 1, 2010 relating to a previous corporate acquisition were settled in fiscal 2011. As of December 31, 2011, $53,933 (September 30, 2011 - $67,354) was still outstanding, all of which has been classified as a current liability. The outstanding balances are secured by a general security agreement and are being repaid in varying monthly instalments until July 2012. $32,204 bears interest at prime plus 1.5% per annum and $21,729 is non-interest bearing.

## 10. SHARE CAPITAL

a) *Authorized*
Unlimited number of common shares
Unlimited number of preferred shares of one or more series



b) *Common shares issued and outstanding*

| | Number of shares | **Amount $** |
|---|---|---|
| Balance, October 1, 2010 | 43,550,509 | **4,087,055** |
| Private placement | 100,000 | **5,000** |
| Exchange of limited partnership units (note 4) | 2,600,000 | **130,000** |
| Employee share purchase plan | 1,030,201 | **41,584** |
| Balance, September 30, 2011 | 47,280,710 | **4,263,639** |
| Employee share purchase plan | 105,800 | **1,058** |
| Balance, December 31, 2011 | 47,386,510 | **4,264,697** |

c) *Private placements*

The 2011 private placement consisted of the issuance of 100,000 shares from treasury at $0.05 per share to a securities dealer as part payment for arranging to update the Corporation's listing and acting as its official sponsor under new regulations on the Frankfurt Stock Exchange. The last closing price on CNSX prior to this issuance was $0.05 per share. The fees paid were recorded as general and administrative expense in fiscal 2011.

d) *Employee share purchase plan*

In February 2008, the Corporation implemented a share purchase plan, under which participants make contributions to purchase common shares on the open market or from treasury (subject to the number of shares being calculated and issued based on a minimum of $0.05 per share) through a designated trust facility, subject to a maximum of $20,000 per participant per plan year. These contributions are matched quarterly by the Corporation issuing shares from treasury at the market price at the date of issue (subject to the number of shares being calculated and issued based on a minimum of $0.05 per share). During the 3 months ended December 31, 2011, the Corporation recorded $1,058 (2011 - $4,811) of stock-based compensation expense.

e) *Stock option plan*

The Corporation is authorized to grant stock options to directors, officers and employees for up to 10% of the number of common shares outstanding. Options may be granted for periods up to 5 years at prices based upon the Corporation's trading price on the date of issue. No stock options were granted, exercised or outstanding in 2011 or in the first 3 months of fiscal 2012.

## 11. CAPITAL DISCLOSURES

The Corporation's goal is to develop a strong capital base to meet its growth objectives, while maintaining the ability to fulfill its financial obligations, finance internal growth and fund potential acquisitions. The Corporation may be required to seek additional equity or debt financing, reduce its operations or to limit its growth in order to maintain liquidity. The Corporation does not have adequate surplus capital on hand to pursue its research and development activities at an optimal rate, to establish and implement a robust marketing and sales program, or to make strategic acquisitions. Accordingly, the Corporation may reasonably be expected to issue additional equity or take on more debt in order to obtain the additional resources which it believes are necessary to enable it to seek to achieve the growth rates which are sought by investors and shareholders. If additional equity is issued, existing shareholders may experience dilution of their shareholdings. If additional debt is taken on, the business could be put at greater risk of not being able to survive downturns in business cycles, the loss of major accounts, or other negative future events.

The Corporation's capital structure includes working capital (deficiency). The Corporation's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. The Corporation's capital is not subject to any external restrictions.

## 12. COMMITMENTS AND CONTINGENCIES

The Corporation is committed to the following minimum annual payments over the next 5 years for vehicle and office leases, which expire at various dates through January 2022:

| | $ |
|---|---|
| 2012 | 143,213 |
| 2013 | 228,648 |
| 2014 | 224,556 |
| 2015 | 224,556 |
| 2016 | 201,080 |
| Subsequent years | 1,016,487 |
| | 2,038,540 |

**13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

*Fair value of financial instruments*

The Corporation's financial instruments are comprised of cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, demand credit facilities, and loans payable. The carrying values of the Corporation's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short-term loans payable approximate their respective fair values due to their short term maturity. As the Corporation's demand credit facilities and long-term loans payable bear interest at floating market rates, the respective carrying values approximate fair value. The Corporation's marketable securities are adjusted to market value on a quarterly basis.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

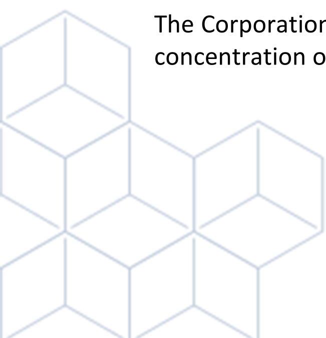
Level 1 reflects valuation based on quoted prices observed in active markets for identical assets or liabilities.
Level 2 reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3 reflects valuation techniques with significant unobservable market inputs.

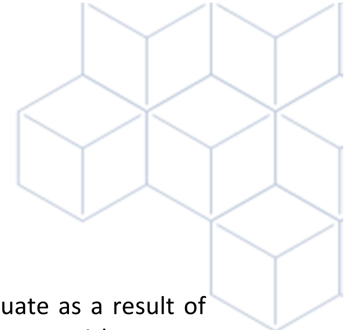
A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The financial instruments in the Corporation's financial statements, measured at Level 1 fair value, are cash and marketable securities.

*Credit risk*

The Corporation is exposed to normal credit risk from customers. Accounts receivable are generally unsecured, subject to the Corporation's ability to file security interest under certain conditions. Default rates on unsecured credit have traditionally been below 1% of annual sales. The Corporation's customer accounts are past due as follows: 30-60 days – $78,000 (2011 - $60,000); 61-90 days – $92,000 (2011 - $92,000); 91 days or older – $60,000 (2011 - $60,000). The Corporation has reviewed the past due accounts on a customer by customer basis and has provided an allowance for doubtful accounts of $28,712 (2011 - $26,480), all relating to past due accounts 90 days or older. Licences for proprietary software cease to function if payments are not kept current. The Corporation minimizes concentrations of credit risk by maintaining a wide customer base spread across differing industries. Additional sales and services may be withheld if a customer falls to pay its obligations in a timely manner.

The Corporation is also subject to credit risk through its cash on deposit. As cash is held in a reputable financial institution, concentration of credit risk is considered minimal.





*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates or availability of capital. The Corporation is exposed to interest rate risk on any outstanding drawings on its demand credit facilities and loans payable. An increase or decrease in the interest rate of 1% would result in approximately a $3,400 (2010 - $4,700) adjustment to the net loss reported based upon the outstanding balances as of December 31, 2011.

*Foreign exchange risk*

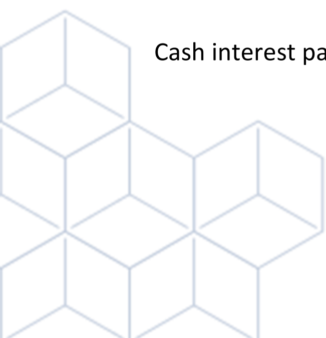
Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. During fiscal 2012, 1% (2011 – 1%) of total revenue was in US dollars. At December 31, 2011, approximately $7,400 (2011 - $8,200), $21,000 (2011 - $19,000) and $57,000 (2011 - $59,000) of the Corporation's cash, accounts receivable and accounts payable and accrued liabilities were in US dollars, respectively. An increase in the value of the Canadian dollar relative to the US dollar will decrease the equivalent Canadian amounts received, while an increase in the value of the Canadian dollar will decrease the amounts received. Exchange rate fluctuations have increased in volatility under current economic conditions, and this risk cannot be accurately quantified. A 1% change in the Canadian-US exchange rate on the net assets held in US$ would increase/decrease the reported loss by approximately $210 (2011 - $320). The Corporation has no contracts in place to mitigate this exposure.

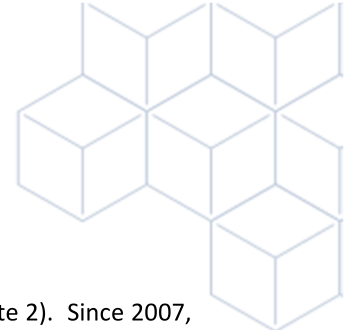
*Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. This risk increases as revenue increases due to the need for additional working capital. The Corporation is at risk of needing to reduce operations to maintain sufficient working capital. The Corporation's financial liabilities, comprised of amounts drawn on the demand credit facilities of $36,132 (September 30, 2011 - $68,457), and accounts payable and accrued liabilities of $682,692 (September 30, 2011 - $713,346), are due and payable within less than one year. Of the total loans payable of $383,341 (September 30, 2011 - $397,354), $330,000 (September 30, 2011 - $330,000) is due in more than one year, and $53,341 (September 30, 2011 - $67,354) is current. The Corporation had a working capital deficiency of $46,578 (September 30, 2011 - $172,156). Deferred revenue of $217,624 (September 30, 2011 - $200,425) and certain payables in the amount of $516 (September 30, 2011 - $516) to be paid through the issuance of common shares, are non-cash items, which do not affect cash working capital used to maintain operations. The Corporation is seeking additional investment to improve its working capital position, but there is no certainty that it will be able to achieve that objective under current market conditions.

## 14. SUPPLEMENTARY CASH FLOW INFORMATION

| | **2012** | 2011 |
|---|---|---|
| | **$** | $ |
| Changes in non-cash working capital: | | |
| Accounts receivable | **(127,030)** | 80,519 |
| Inventory | **39,607** | 2,206 |
| Accounts payable and accrued liabilities | **(30,654)** | (165,752) |
| Deferred revenue | **17,199** | 101,707 |
| Deferred leasehold allowances | **44,616** | - |
| Other | **-** | 1,404 |
| | **(56,262)** | 20,084 |
| Cash interest paid | **5,186** | 9,068 |





## 15. EXPLANATION OF TRANSITION TO IFRS

These are the Corporation's first consolidated interim financial statements prepared under IFRS (see note 2). Since 2007, the CICA has been harmonizing Canadian GAAP with IFRS. The Corporation early adopted all harmonized policies, and sought to align its estimates and accounting practices under GAAP with those that would apply under IFRS in order to minimize impact of the change to IFRS. While there are so no significant adjustments required to comply with IFRS, the following table summarizes the differences in presentation:

| GAAP | IFRS |
|---|---|
| Balance sheet | Statement of financial position |
| Statement of earnings (loss), comprehensive earnings (loss) and retained earnings (deficit) | Statement of comprehensive income *and* Statement of changes in equity |
| Expenses/Managed information services | Direct salaries and benefits (moved up next to revenue) |
| Expenses/Cost of goods sold | Cost of goods sold (moved up next to revenue) |
| n/a | Gross profit |
| Expenses/Amortization | Split into:<br>a) Amortization of intangibles<br>b) Depreciation of property and equipment |
| Deficit, beginning of year | Moved to Statement of changes in equity |
| Deficit, end of year | Moved to Statement of changes in equity |
| n/a | Statement of changes in equity (adds some disclosure formerly included only in notes) |
| Statement of cash flows | Statement of cash flows |
| Notes to financial statements | Notes to financial statements (more disclosure) |