2011 Annual Report

About In-Touch:

In-Touch's corporate roots go back to 1978 when Tenox Appraisal Systems was founded. Tenox was acquired by In-Touch in 2005. Tenox has a deep history in retail loss prevention, merchandising and retail audit and performance measurements, and mystery shopping. The wealth of knowledge brought by Tenox has been invaluable in informing the design and development of our mobile software technology and services solutions for major retailers.

In 1992, In-Touch was the first market research company to develop and use kiosks for data collection. In fact, for many years, In-Touch was known as 'the kiosk company'. Like Tenox history, the market research roots and 1990's kiosk experiences of In-Touch provided a strong base of experience and knowledge that enabled the development path of our mobile software and services solutions.

In 2004, In-Touch began a technology journey, with a new management team, and a new business strategy. The In-Touch vision of '**Perfect Information. Instantly.'**, as the key benefit to our customers, is now being realized with our mobile software technology and services solutions.

In 2009, In-Touch launched 'In-Touch Apps' for internal use. This software technology greatly improved scalability, robustness and security for our customers.

In 2011, In-Touch will be rolling out our In-Touch Apps as an application to be used directly by our brand and agency customers and developers in the value chain.

We are very proud of our customers and the benefits they derive from our products and services.

2011 Highlights:

- Business combination with Service Intelligence, an operating company of Global Compliance Services of New Jersey.
- Refinancing and extinguishment of bonus interest due on loan.
- Revenues of $8,930,735
- Net earnings of $1,114,904

May 17, 2012

Message from the CEO

Dear Shareholder:

There were dramatic changes at In-Touch over the last year beginning with our 52% growth in revenue. We significantly expanded our Audit and Mystery Shopping business and coincidently expanded into the US market with the business combination with Service Intelligence ("SI") a division of Global Compliance Services ("GCS") in August. The Information Management Solutions ("IMS") division, in its first full year, also made a major contribution to growth.

Because of the acquisition of Service Intelligence we now have an office in Fort Mill, South Carolina - just outside the Charlotte, North Carolina city limits. This is an ideal location as a focal point for Audit and Mystery Shopping services in the USA as Charlotte is a US Air hub.

We expect the strong revenue growth to continue into 2012. As of this date, bookings for 2012 have already exceeded $10,000,000. We will benefit from a full year of revenue contribution from Service Intelligence and the continued significant growth in the IMS division.

Our financial reports showed our gross margins declining from 60% to 51%. As noted in our MD&A and press release, we expect the margins to return to historical levels once the full integration of SI customers onto In-Touch's systems is complete – sometime this summer.

In July 2010 we created IMS division to organize and sell our products and services into governments. In 2010 the IMS division delivered $70,129 in revenue – primarily from the Canadian Federal Government. I reported in April 2011 the IMS division has $1.5 million in bookings going into 2011. I am pleased to report that as of May 1, 2012 the IMS group has close to $3 million in bookings for 2012 and we expect significantly higher bookings for the years beyond.

Acquisitions are a major source of revenue growth for In-Touch and a method to increase our customer base and capabilities beyond our own product development initiatives. To date, acquisitions have been organic in that we do no marketing or outreach for acquisitions. Every acquisition to date has been initiated with an approach by the vendor to In-Touch. Our goal is to complete one or two $2-$4 million acquisitions in 2012. Once the company has revenues in the $15-$20 million range we plan to target acquisitions that are greater than $5 million in annual revenues.

IN-TOUCH
INSIGHT SYSTEMS

Over the past several years the company's managed mobile software technology for marketing and operations has evolved into an *enterprise edge* solution. The edge of the enterprise, whether the enterprise is a government department, an automobile company or a retail chain, is where that enterprise engages its customers and suppliers via websites and mobile devices. In-Touch provides service, software tools, logistics and SaaS applications that enable its customers to manage complex, multiplatform, mobile, web and social media applications and networks that are at the 'edge' of their enterprise – in both online and offline modes. Moreover, In-Touch also provides a data integration layer and services to link the information from edge transactions to corporate information systems. In-Touch is ideally positioned to take advantage of the mobile-web service transformations that are occurring in large enterprises because of global forces driving greater mobile engagement.

As always, I would like to personally thank all In-Touch employees for the ongoing commitment and hard work.

Dated May 17, 2012 at Ottawa, Ontario

Michael J. Gaffney
Chief Executive Officer

In-Touch Survey Systems Ltd.

Dated: April 30, 2012

Management's Discussion and Analysis of Financial Conditions & Results of Operations

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of In-Touch Survey Systems Ltd. ("In-Touch" or the "Company") and the notes to those statements as at and for the year ending December 31, 2011.

On January 1, 2011, In-Touch adopted International Financial Reporting Standards ("IFRS") for Canadian publically accountable enterprises. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In accordance with IFRS 1, the Company has restated all required prior period financial information to be in accordance with IFRS. The most significant accounting policy changes that have had an impact on the results of our operations are discussed within the applicable sections of this MD&A, and in more detail in the Transition to IFRS section below.

The accompanying audited consolidated financial statements have been prepared by and are the responsibility of In-Touch's management. The audited consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Dollar amounts are expressed in Canadian dollars unless otherwise noted.

Summary of 2011 Results

Revenue in 2011 increased over the previous year by approximately 52% or $3,000,000 to just under $9,000,000. The Company has successfully integrated revenues from many U.S. and Canadian entities through an outsourcing and business transfer agreement with Global Compliance Services ("GCS") of Red Bank, New Jersey. The agreement transfers customer contracts from Service Intelligence ("SI"), an operating company of GSC, to In-Touch. In-Touch has the right to negotiate new contracts with the transferred customers as well as past customers of SI. Revenues from this agreement accounted for 58% of the revenue increase while internal growth accounted for 42% of the increase. The agreement with GCS combined with the internal growth of the Company resulted in another very successful year.

The Company has accounted for the business transfer transaction with GCS as a business combination under IFRS 3 as the group of assets acquired met the definition of a business. The current and deferred cash outflows related to the acquisition will be a maximum of $502,950 ($525,000 USD), which consists of cash payments of $47,900 ($50,000 USD) upon signing of the agreement with another $41,447 ($43,267 USD) of deferred cash payments to be paid over the first two quarters of 2012. The deferred cash payments have been included in trade and other liabilities. The Company will also make payments related to contingent consideration of ten percent royalty to be paid during the first year, based on the aggregate gross revenues earned for the existing SI customers to a maximum of $239,500 ($250,000 USD) and a five percent royalty to be paid during the second year, based on the aggregate gross revenues earned for the existing SI customers to a maximum of $167,650 ($175,000 USD). On the date of the acquisition the Company recorded the fair value of the contingent consideration at $341,376. The initially recognized contingent consideration represents the present value of the Company's estimate of the probability-weighted cash outflows. It reflects management's estimate of the maximum royalty payments which have been discounted using an interest rate of 18%. For the year ended December 31, 2011, the acquired business added revenues of $1,773,331 and $247,257 to operating earnings since the acquisition date. It is not possible to provide the revenue earned of the combined entity for the year as if the acquisition had occurred on January 1, 2011, because of the lack of details in Service Intelligence's management system prior to the acquisition. Acquisition-related costs amounting to $4,850 are not included as part of the consideration transferred and have been recognized as general and administrative expenses.

Management continues to focus on increasing revenues year over year in its segments referred to as EDC (electronic data collection), MDC (manual data collection), MKR (Market Research) and IMS (Information Management Systems). EDC revenues increased 5% while MDC revenues increased 79% compared to the previous year. The MKR segment saw revenues decrease by 77% over the same period. The Company expects the MKR segment to be combined with MDC and EDC in 2012. During the third quarter of 2010 the Company introduced a new segment, IMS. This segment targets government departments with service transformation initiatives relating to web services and authentication/authorization requirements. IMS

revenues for 2011, our first full year of business, were $1,300,000 compared to $70,000 for 2010. Revenues from the IMS segment are expected to growth significantly in 2012.

Net earnings for 2011 were $1,114,904 compared to net earnings of $758,101 in 2010. These earnings continued to strengthen the balance sheet with shareholders' equity increasing to approximately $2,200,000 from just over $1,000,000 in 2010.

Overview Of the Business

In-Touch Survey Systems Ltd. (or "In-Touch") does business as Service Intelligence and In-Touch Insight Systems. A third segment, the In-Touch IMS team, will become more formalized in 2012.

In-Touch Insight Systems (EDC) develops managed mobile software technology and services for business to consumer ("B2C"), business to business ("B2B"), governments and regulators. These stakeholders need mobile, real-time information about customer leads, customer feedback, operational compliance, employee feedback and new product analysis. In-Touch has developed a comprehensive software platform, called "In-Touch Apps" that provides for the rapid development of data collection programs, mobile forms creations, and real-time online reporting for our customers. The Company's technology is a hardware agnostic mobile web solution that operates on any device that runs a modern browser. Major 2011 customers: General Motors USA and Canada, Nationwide Insurance, BMW, the State of Texas, US Navy and Marine Corps.

Service Intelligence (MDC) provides onsite audit and Mystery Shopping services to major B2C companies in Canada and the United States. The Company also provides these services under the name of In-Touch Insight but expects to merge the brands in the near future. The Company's software team also develops the software platform, called Unified Insights, to run the audit and shopping services. The Company opened new offices for Service Intelligence in Charlotte North Carolina in September 2011. Major 2011 customers: Loblaw, A&W, the Beer Store, Publix, Arby's, Canada Post and Sears.

The IMS division, which completed its first full year of operations in 2011, provides enterprise software engineering services to the Canadian Federal Government. The Company expects significant growth in this division in 2012 and beyond as the Federal Government searches for service transformation economies using modern web services and mobile solutions that the Company has already developed in its EDC and MDC divisions.

Revenues from data collected by electronic means (kiosk, tablet, internet etc.) are defined in the In-Touch financial statements as EDC, revenues generated by Mystery Shoppers are defined as MDC, revenues generated by traditional market research methods are defined as MKR, and government services revenues are defined as IMS.

In-Touch customers for EDC, MDC and MKR include many Fortune 500 type companies both in Canada and in the United States along with several government departments in both Canada and the United States.

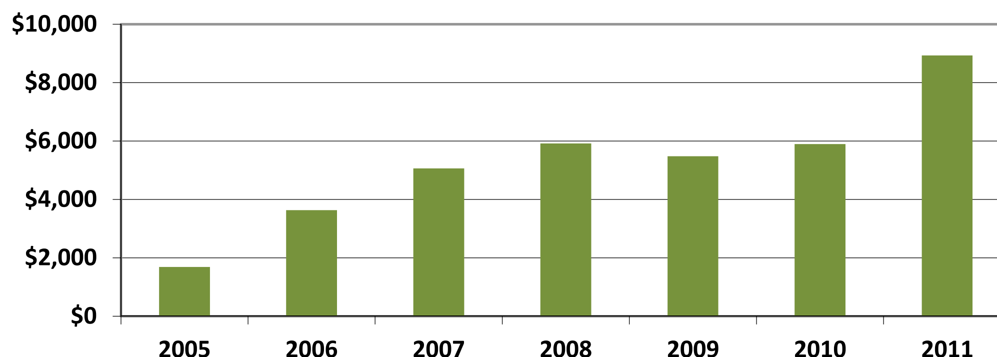
Forward-looking statements

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. The Company cautions that the forward-looking statements contained in this MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. Forward-looking statements include those identified by the expressions "anticipate", "believe", "plan", "estimate", "project", "expect", "intend" and similar expressions to the extent that they relate to the Company or its management. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the MD&A and as discussed in public disclosure documents filed with Canadian regulatory authorities. In-Touch disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers should not place undue reliance in the Company's forward-looking statements.

RESULTS OF OPERATIONS

a) Revenue

Figure 1: Yearly revenue (,000s)



The Company's 2011 revenues were $8,930,735, an increase of 52% from 2010 revenues of $5,893,125. Electronic data collection (EDC) services sales increased 5% from $3,134,407 in 2010 to $3,285,240 in 2011. Manual data collection (MDC) services sales increased 79% in 2011 from $2,385,440 in 2010 to $4,273,928. Market research services sales (MKR) obtained revenues of $69,632 in 2011 down 77% from 2010 revenues of $303,149. Revenue from Information Management Services (IMS), a new division which began late in 2010, were $1,301,935 in 2011 compared to $70,129 in 2010. Revenue generated from Canadian clients in 2011 represented $4,979,591 or 56% ($3,178,825 or 54% in 2010), while U.S. sales accounted for $3,951,144 or 44% of total 2011 sales ($2,714,300 or 46% for 2010). The Company successfully secured new contracts from its largest MDC Canadian client, a major retailer, that first signed late in 2008. Revenues from this client of $1,281,309 were realized during 2011 compared to $1,256,608 in 2010. For 2012, revenues from this client are expected to be significantly reduced as the client has chosen another provider for a major portion of the contracts. The Company also continued with many EDC programs for its largest U.S. based client, an automobile manufacturer that first signed in late 2006. Revenues from this client of $1,401,876 were realized in 2011 compared to $1,291,445 in 2010. Revenues with these clients are expected to continue throughout 2012 however at a much lower level for the MDC client and at similar levels for the EDC client.

Included in 2011 revenues were approximately $1,773,000 from customers acquired through an outsourcing and business transfer agreement with GCS in August of 2012. Of this revenue approximately $1,126,000 or 64% was generated from U.S. sales and $647,000 or 36% from Canadian sales. Most SI customer contracts ended on December 31, 2011 while the others were set to expire at the end of the first quarter of 2012. The Company has been successful in re-negotiating some of the SI contracts for 2012 while other customers remain on a month-to-month basis. In-Touch is optimistic that it will secure most of the SI customers for 2012.

Management expects fluctuations in quarter-over-quarter operating results but continues to believe that revenues will continue to increase in 2012 based on internal growth and acquisitions.

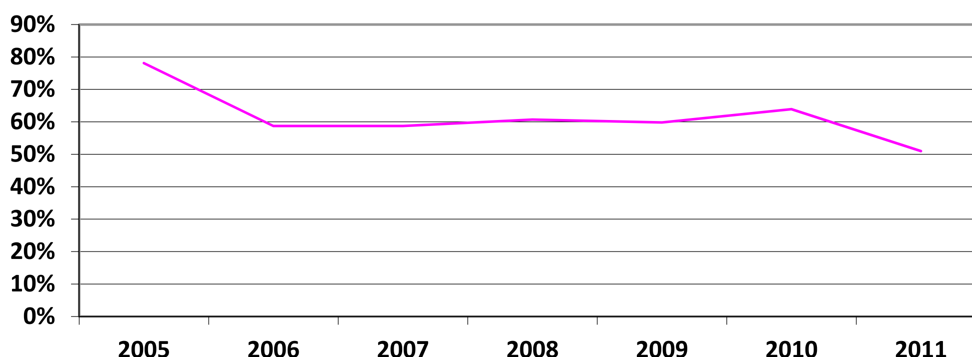
Revenue recognition: The Company follows International Financial Reporting Standards (IFRS) in recognizing its revenue from operations. The Company receives revenue from consulting, custom program development, software and hardware systems use and license fees, mystery shopping and reports and services. For further information on revenue recognition, refer to Note 4 in the audited consolidated financial statements dated December 31, 2011.

b) Cost of Services/Gross Margin

Consolidated cost of services sold increased 85% from $2,355,983 in 2010 to $4,366,655 in 2011. For 2011, EDC cost of services and goods increased by $323,948 or 38%. MDC costs increased for 2011 in the amount of $1,261,539 or 118%. MKR cost of services accounted for $32,643 a decrease of $193,741 from 2010 cost of services of $226,384. IMS, in its first full year of operation, had cost of services of $817,051 for 2011 compared to $37,017 for 2010. EDC cost of services increased due to higher shipping charges to the U.S. and communication costs (as each unit is equipped with wireless technology in order to transmit results or program updates live in the field). These expenses increased 28% from $420,227 in 2010 to $536,164 in 2011. Sales commissions increased by $136,654 or 170% from $80,367 in 2010 to $217,021 in 2011 due to the increase in sales staff and commissions being paid for a full year in the new IMS division. Repair and maintenance decreased from $83,989 in 2010 to $46,484 in 2011 as the Company refurbished its data collection devices in house. NCI pay-outs, incurred from the 2008 acquisition and included in cost of services amounted to $88,370 in 2011 compared to $10,041 in 2010. Higher revenues from NCI related customers resulted in the increase. The NCI pay-out agreement ended on August 31, 2011 and no further expense related to the NCI acquisition is expected. MDC cost of services increased due to higher mystery shop volumes and the higher costs associated with the U.S. outsourcing and business transfer agreement. Until the Company moves the outsourced clients to the In-Touch platform costs will remain high. Transitioning the outsourced clients is well underway and expected to be completed by the end of Q2 2012. Until that time In-Touch will be carrying the extra costs. MKR cost of services decreased due to lower volumes. IMS cost of services were $817,051 in 2011 compared to $37,017 in 2010. The increase was due to the significant growth of this segment during 2011. The segment is expected to continue with significant growth in 2012.

Amortization associated to cost of services and goods sold was $258,881 for 2011 compared to $230,693 for 2010, a 10% increase due to the purchase of property and equipment used for data collection purposes.

Figure 2: Yearly gross margin results as a percentage of sales



The consolidated gross margin increased by $1,026,938 or 29% to $4,564,080 in 2011 from $3,537,142 in 2010 however the margin percentage of 51% in 2011 is significantly lower than that of 60% in 2010. The increased costs were a direct result of the SI clients as discussed above. The gross margin percentage of 51% obtained during 2011 is lower than Management's expectations of 55 to 60%. Management expects gross margin percentage to meet expectations for 2012.

c) Selling

Selling expenses increased by 88% from $384,018 in 2010 to $720,154 in 2011. Marketing initiatives undertaken during the year resulted in expenses increasing by $77,111 or 79% from $97,577 in 2010 to $174,688 in 2011. Travel expenses during the year 2011 increased by $82,212 from $67,572 in 2010 to $149,784 in 2011. Salaries and benefits increased by $176,813 or 81% from $218,869 in 2010 to $395,682 in 2011. New selling salaries and benefits were incurred as a result of the new IMS division and new hires in the EDC and MDC segments. The higher selling expense trend is expected to continue into 2012 as the full effect of the hires will be reflected. The mix between marketing and travel may change. Management continues to watch the marketplace very closely and will aggressively seek new business opportunities.

d) General and Administrative

General and administrative expenses increased by 20% or $387,782 from $1,949,536 in 2010 to $2,337,318 in 2011. The staffing levels increased General and Administrative expenses by $8,879 or 1% from $1,286,934 in 2010 to $1,295,813 in 2011. Included in salary expense are management bonuses that increased by $56,045 from $104,142 in 2010 to $160,187 in 2011. Additional client service staff and new IMS staff also contributed to the overall increase in salary expense. Office rent increased by $35,010 from $239,731 in 2010 to $274,742 in 2011. The Company had accrued rent expense for an abandoned office that it was able to sublease. The rent accrual was subsequently reversed in 2010 thereby lowering rent expense. The Company also rented new space for its U.S. operations and expects rent expense to be higher than in 2011. Professional fees increased by $24,322 from $65,890 in 2010 to $90,212 in 2011 Consultant fees increased by $124,044 from $93,001 in 2010 to $217,045 in 2011. Listing expenses, those expenses related to operating a public company, increased by $15,160 or 35% from $43,455 in 2010 to $58,615 in 2011. Corporate administration expenses increased $177,342 or 41% from $428,537 in 2010 to $606,180 in 2011. The Company recorded a gain on disposal of property and equipment of $4,284 in 2011 compared to a gain of $4,698 in 2010. Management expects General and Administrative expenses to increase from these levels for the next year as revenues increase. Stock-based compensation added $24,337 in non-cash salary expense to the 2011 General and Administrative expense compared to $4,214 for 2010. Management anticipates that stock-based compensation will increase slightly for 2012.

Amortization associated with general and administrative expenses was $73,420 for 2011 compared to $36,417 for 2010. Amortization of intangible assets of $41,346 was included in the $73,420 for 2011 as a result of the business acquisition.

e) Product Development

Product development activities increased significantly from $208,176 in 2010 to $438,608 in 2011. Included in 2011 is an ITC tax recognition which reduced the 2011 expense by $176,139. Salaries increased 193% from $206,404 in 2010 to $605,689 in 2011. Product purchases for testing new data collection hardware were $9,058 in 2011 compared to $1,772 in 2010. The Company continues to invest to develop and launch its new “*In-Touch Apps*” programs and its new *“Unified Insights”* software for MDC clients.

f) Earnings from operating activities

Earnings from operating activities in 2011 were $1,068,000 an increase of $72,588 or 7% compared to earnings of $995,412 for 2010.

g) Non-operating earnings (expenses)

Finance costs for 2011 were $68,555 of which $59,032 was paid on short-term debt and $9,523 was paid for long term debt. In 2010, finance costs were $94,967 of which $24,048 was paid on short-term debt $70,919 was paid on long term debt. Finance costs were down 31% compared to 2010 and were as a result of the repayment of loans and the line of credit. Most significant was the Business Development Bank of Canada (BDC) loan that was paid down $110,000 on February 17, 2011. The Company expects finance costs to increase in 2012 as it has converted the financial derivative into a new loan.

The Company received proceeds of $550,000 in 2007 on the issuance of long-term debt. Included in the repayment obligations of the Company is an amount of bonus interest calculated on a sliding scale ranging from 3-10% of the market capitalization at the end of the loan. The fair value of the bonus interest was valued at inception and subsequently at the end of the reporting period.

During the fourth quarter of 2011, the Company and BDC have agreed to a final bonus payment amount of $398,243 based on a market capitalization of $4,978,043. The final bonus amount has been converted to a four-year loan bearing interest at 13.5% repayable by monthly payments of $5,100 for 47 months and one final payment of $158,543 at the end of the term. The loan is subject to a cash flow sweep based on excess available funds up to a maximum of $50,000 per year. The Company made a final adjustment to the bonus interest amount in the fourth quarter and recorded a loss on extinguishment of long-term debt of $147,748 along with a loss on fair value for 2011 totalling $104,128 ($97,109 – 2010).

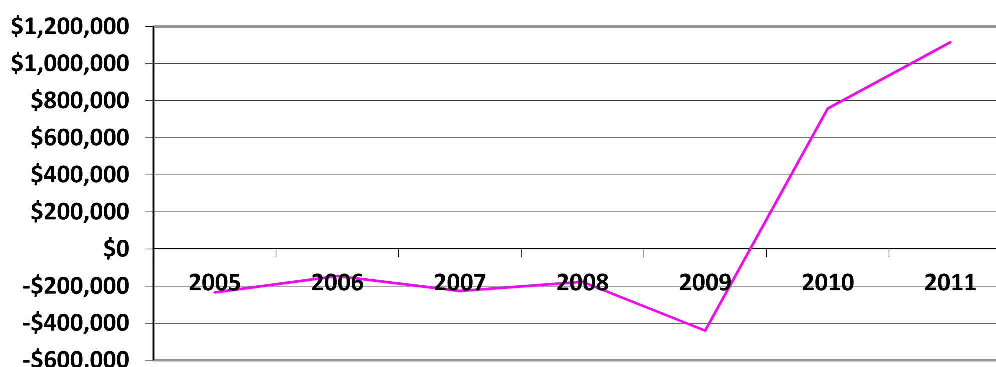
The Company recorded a loss on U.S. exchange of $8,259 in 2011 compared to a loss of $45,235 in 2010. Any future gains or losses will be dependent on the fluctuation of the Canadian dollar.

As part of the outsourcing and business transfer agreement with GCS, the Company agreed to pay a royalty for revenues from SI transferred customers. As part of the business combination formula the royalties were recorded as contingent payments and recorded at fair value. The fair value of contingent payments was calculated at the acquisition date and again at December 31, 2011. As a result the Company recorded a loss on fair value of contingent payments of $29,610. The contingent payments will be adjusted at each reporting period to fair value.

h) Income taxes

The Company in 2011 recorded a deferred tax recovery of $419,104. It has become evident, that after many years of losses, that the Company has become profitable and it is probable that future taxable profit will be available against which unused tax losses, temporary differences, and unused tax credits can be utilized. In-Touch Insight Systems Corp., a subsidiary of the Company, recorded income tax of $13,900 for 2011 ($Nil – 2010).

Figure 3: Net earnings and other comprehensive earnings (in '000s)



i) Cash Flows

Operating, investing and financing activities in 2011 resulted in a net inflow of $155,964 compared to an inflow of $30,901 in 2010. General operations and results thereof generated cash of $758,086. Last year, in 2010, general operations generated cash of $849,325. In 2011 the Company invested $47,900 through the SI business combination discussed earlier. There was investment in property and equipment in 2011 of $226,323 compared to an investment for 2010 of $116,482. Proceeds from the sale of property and equipment in 2011 were $11,437 compared to proceeds of $22,236 in 2010. The Company issued common shares as a result of the exercise of stock options in the amount of $52,333 in 2011 compared to $7,800 in 2010. Payment of obligations under acquired finance leases amounted to $Nil in 2011 ($24,941 - 2010) as all finance leases were paid in full during 2010. The outflow of cash from the repayment of long-term debt was $185,166 in compared to $118,890 in 2010. Finance costs paid during 2011 amounted to $68,555 compared to $91,886 in 2010. Payment of the contingent consideration amounted to $137,948 during 2011. The Company's usage of its line of credit at the end of 2010 and 2011 was $Nil.

j) Liquidity and Capital Resources

Working capital was $963,199 as at December 31, 2011 compared to $822,842 as at December 31, 2010. The bank operating line of credit was $Nil at December 31, 2010 and 2011. Long-term debt increased from $595,458 at December 31, 2010 to $848,535 at December 31, 2011 of which $456,368 is the current portion ($146,558 at December 31, 2010). The full amount of the BDC loan was reclassified to current liabilities as the loan is due in April 2012. The derivative financial instrument related to the BDC debt was converted to a term loan of $398,243 of which $61,200 was recorded as current. Deferred revenue increased from $129,465 at December 31, 2010 to $141,769 at December 31, 2011. Trade and other liabilities increased $529,435 from $378,134 at year-end 2010 to $907,569 as at December 31, 2011. Income tax payable amounted to $13,900 at December 2011 compared to $Nil for 2010. The contingent consideration from the SI business combination was $247,390 at year-end 2011 of which $143,210 is the current portion. Due to

related parties, (see related party transactions below) decreased from $40,000 on December 31, 2010 to $Nil on December 31, 2011.

Debt to equity decreased from 0.52 as at December 31, 2010 to 0.46 at December 31, 2011. The Company includes the BDC loan as equity in calculating this ratio.

Risks and uncertainties to the Company include a possible decline in revenue from our largest customers, who operate in the automotive and food retail industries. Continuing indications thus far in 2012 suggest that revenues from the automotive industry client will increase in total for 2012 while revenues from the client in the food retail industry will decrease for 2012. Overall, the Company expects revenues to increase for 2012 as SI acquired customers will have a full year effect.

Any financial weakening could create uncertainty associated with the Company's debt lenders. Our ability to secure further working capital through the marketplace is not certain. We remain dependent upon our ability to produce cash flows through revenues in order to meet our obligations and the continued support from our debt lenders.

Review of quarterly operating results (,000s)

	In accordance with IFRS							
	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$3,018**	**$2,762**	**$1,723**	**$1,428**	**$1,578**	**$1,692**	**$1,301**	**$1,322**
Cost of services and goods sold	1,585	1,495	748	539	635	630	593	498
Gross profit	1,433	1,267	975	889	943	1,062	708	824
Total operating expenses	925	970	858	743	672	624	609	636
Earnings from operating activities	**$508**	**$297**	**$117**	**$146**	**$271**	**$438**	**$99**	**$188**
Finance costs	(18)	(20)	(14)	(16)	(22)	(28)	(26)	(20)
Change in fair value of derivative	67	(80)	(46)	(45)	(81)	(6)	(10)	-
Loss on extinguishment of long-term debt	(148)	-	-	-	-	-	-	-
Gain (loss) on foreign exchange	(16)	-	64	(56)	(25)	(26)	16	(10)
Change in fair value of contingent payments	(30)	-	-	-	-	-	-	-
Net earnings before taxes	**$363**	**$197**	**$121**	**$29**	**$143**	**$378**	**$79**	**$158**
Calculation of EBITDA earnings from operations								
To net earnings add:								
Finance costs	18	20	14	16	21	28	26	20
Amortization	80	72	71	68	68	67	65	67
Amortization of intangible asset	41	-	-	-	-	-	-	-
Change in fair value of derivative	(67)	80	46	45	81	6	10	-
Loss on extinguishment of long-term debt	148	-	-	-	-	-	-	-
Stock-based compensation	11	7	3	3	1	1	1	1
Change in fair value of contingent consideration	30	-	-	-	-	-	-	-
Adjusted EBITDA[1]	**$624**	**$376**	**$255**	**$161**	**$314**	**$480**	**$181**	**$246**

[1]Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that we use to assist in evaluation of our liquidity and the ability of our operations to generate cash without regard to our current capital structure which is highly dependent on debt. This measure does not have any standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to the calculation of similar measures used by other companies, and should not be viewed as alternatives to measures of financial performance or changes in cash flows calculated in accordance with IFRS. We calculate adjusted EBITDA by adding back to net earnings finance costs, amortization expense, change in the fair value of derivative and stock-based compensation expenses including shares released from escrow.

OUTLOOK

Based on the increased number of customers that the Company has secured in the second half of this year and the new opportunities before the Company, Management once again anticipates year over year revenue growth in FY 2012. The Company has a sales growth target rate of 25% from organic growth and an additional 25% growth from acquisitions. As of the first week of April 2012 the Company has already achieved over 50% of its annual sales growth target in terms of bookings for the year. Final sales growth numbers will depend on macroeconomic forces as well as the everyday commercial challenges facing markets in general and the Company specifically. The Company continues to diversify its revenue base by adding more Fortune 1000 customers in both the EDC and the MDC divisions. Additionally, we are expecting significant growth next year in our IMS division coming off the strong foundation put in place over the last two years. We have seen a significant reduction in the percentage of our overall business that the top ten clients represent and expect this trend to continue.

Management believes that the Company's prospects continue to improve. With improving liquidity, the Company will be able to invest further in its mobile data collection, data reporting and data management technology. Management has identified potential improvements that will make the Company's offerings yet more compelling as marketing and research tools for its clients, and increasingly price competitive. However, balancing the need to secure and deliver work profitably with the existing offering while carefully managing the development of the Company's technology remains a challenge, especially in light of the Company's tight liquidity.

The Company continues to improve the scalability of its technology and its ability to manage multiple, concurrent, and geographically disperse data collection programs. The Company's software platform is a cornerstone core competency of the firm. This software technology provides customers with a powerful and robust platform. In-Touch will continue to invest in this technology with the product becoming more of Software as a Service ("SaaS") as each new release is implemented.

Margins decreased to 51% in 2011 mainly due to the integration of the Service Intelligence ("SI") customers. The Company estimates that it will take a year to fully migrate the SI customers from the inefficient SI systems onto the higher margin In-Touch Systems. The Company is on track to complete this migration by the end of July 2012.

The company significantly increased expenses in Marketing and Product Development in Q2 2011 and anticipates continuing this strategy while at the same time targeting positive net income and EBITA.

ACCOUNTING POLICIES

a) Critical Accounting Estimates and judgments

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Assessing the stage of completion of revenue streams

The stage of completion of any revenue stream is assessed by Management by taking into consideration all information available at the reporting date. In this process, Management estimates for each project's milestones, actual work performed, the costs to complete the work and the value of the work completed. Further information on the Company's accounting policy for revenue recognition is provided in Note 4(h) of the consolidated financial statements.

Assessing the probability of deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 32 of the consolidated financial statements. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Impairment testing of goodwill, other intangible assets and property and equipment

Impairment testing of goodwill, other intangible assets and property and equipment is determined based on Management's assumptions taking into consideration the past and current performance of the Company as well as expected developments in its CGU's respective markets and in the overall macro-economic environment.

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in the income statement in the subsequent period. Details of the assets and liabilities acquired are given in Note 5 of the consolidated financial statements.

Contingent payments

The fair value recognized for contingent payments has been estimated by management based on the Company's projected revenues from existing SI customers (see Note 6 of the consolidated financial statements). The actual contingent payment may vary due to timing of contingent payments and actual revenue earned from existing SI customers.

Useful lives of property and equipment

Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence, particularly for computer hardware

b) Changes in Accounting Policies including Initial Adoption

Transition to and Initial Adoption of International Financial Reporting Standards ("IFRS")

Effective January 1, 2011 the Company adopted IFRS with a transition date of January 1, 2010.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are in effect for the year ended December 31, 2011 and issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). First-time Adoption of IFRS ('IFRS1") has been applied. On April 25, 2012 the Company's Board of Directors approved these consolidated financial statements and authorized them for issue.

These are the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In

accordance with IFRS 1, the Company has restated all required prior period financial information to be in accordance with IFRS.

Impact of IFRS on our Company

The conversion to IFRS impacts the way the Company presents its financial results. The Company has prepared and trained its employees and directors to ensure an appropriate understanding of how IFRS affects the Company during the transition process. The impact of the conversion to IFRS on the Company's accounting systems has been minimal. The Company's internal and disclosure control processes, as currently designed, have not required significant modifications as a result of its conversion to IFRS. The Company has assessed the impacts of adopting IFRS on our contractual arrangements, and have not identified any material compliance issues. The Company has considered the impacts that the transition will have on our internal planning process and compensation arrangements and have not identified any significant impacts.

First Time Adoption of IFRS

The guidance for the first time adoption of IFRS is set out in IRFS 1, *First Time Adoption of International Financial Reporting Standards (IFRS 1"). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:*

- To apply the requirements of IFRS 3, *Business Combinations,* prospectively from January 1, 2010, the "Transition Date";

- To convert property and equipment at net book value, deemed cost per IFRS 1 with no changes to estimates in amortization;

- To apply the requirements of IFRS 2, *Share-based payments,* to equity instruments granted which had not vested as of the Transition Date; and

- To transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arise on adoption of IFRS.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in Note 35 of the consolidated financial statements and also discussed below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include In-Touch Insight Systems Inc., MarketLine Research Corp. and In-Touch Insight Systems Corp. In-Touch Insight Systems Inc. is a Canadian company while Marketline Research Corp. and In-Touch Insight Systems Corp. are incorporated in the U.S. All intercompany transactions and balances have been eliminated. All subsidiaries have a reporting date of December 31st.

(b) Functional currency and foreign currency translation

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency") including the goodwill and fair value adjustments that arose on the acquisition of such subsidiaries. These consolidated financial statements are presented in Canadian Dollars, which is also the Company's (and its subsidiaries) functional currency.

Transactions in foreign currency are translated into the functional currency of In-Touch and of the respective Company subsidiary using the exchange rate in effect on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at the reporting date are recognized in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rate at the date of

the transaction. The functional currency of the Company's subsidiaries remained unchanged during the reporting period.

The financial position and results of operation of all subsidiaries included in these consolidated financial statements that have a functional currency different from the presentation currency are translated to the presentation currency as follows:

i. Assets and liabilities are translated at the closing rate prevailing at the reporting date;
ii. Income and expenses are translated at monthly average exchange rates over the reporting period, and
iii. Exchange differences are recognized in other comprehensive income and as a part of currency translation reserve within equity.

On disposal of a foreign operation, the cumulative foreign currency reserve within equity is reclassified to profit or loss, and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into the Company's presentation currency at the closing rate.

(c) Stock-based compensation

Beginning 2011 the Company recognizes stock-based compensation expense in accordance with IFRS 2. The Company measures and recognizes compensation expense based on the fair-value of the stock options issued using the Black-Scholes option-pricing model.

Under this model, stock-based payments to employees are measured at fair value and amortized over the vesting period and the stock-based payments to non-employees are measured at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, and are recognized over the vesting period as long as services continue to be provided. If the stock options are exercised, the proceeds are credited to share capital and the fair value of the options or agent options exercised is reclassified from contributed surplus to share capital.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the Company's management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Estimates and judgments used in the preparation of these financial statements include fair value of earn out arrangements, fair value of assets acquired and liabilities assumed in allocation of purchase price in business combinations, percentage complete on revenue contracts, useful lives of property and equipment and intangible assets, asset impairment charges, allowance for doubtful accounts, certain accruals, assumptions in recording and allocating current and future taxes, stock-based compensation and fair value measurements. Actual results could differ from those estimates.

(e) Financial instruments

Refer to Note 4(r) to the 2011 consolidate financial statements for details.

c) Management's Conclusion on the design of Internal Controls over Financial Reporting

The Chief Executive Officer and the Controller have evaluated the effectiveness of the Company's disclosure and internal controls and procedures as at December 31, 2011 and have concluded that the Company's controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which this report was being prepared.

e) Management's Conclusion on the effectiveness of Disclosure Controls

The Chief Executive Officer and the Controller have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2011 and have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

CORPORATE GOVERNANCE

The three-person Board of Directors of In-Touch is composed of two independent directors who are not related to the Company. The other director has been appointed as Chief Executive Officer. The entire Board fulfils the Audit Committee and Compensation Committee mandates. The Board and Management will continue to ensure compliance with regulatory requirements.

RISK FACTORS AND UNCERTAINTIES

The Company is focused on expanding its business internally as well as through strategic partnerships and acquisitions to achieve continued growth and profitability. Nevertheless the Company's future results will depend on its ability to find financing and to continuously introduce new products and enhancements to its customers. There are other additional risks and uncertainties described below.

a) Lengthy and Complex Sales Cycle

In-Touch's sales efforts target large companies requiring In-Touch to expend significant resources educating prospective customers about the uses and benefits of In-Touch's product. Because the purchase of In-Touch's solution is a significant decision for these companies, prospective customers generally take a long time to evaluate the product. The sales cycle may range from four to six months for larger accounts, although these cycles can be longer due to significant delays over which In-Touch has little or no control.

b) Increasing Competition

The markets in which In-Touch operates and intends to operate are extremely competitive and can be significantly influenced by the marketing and pricing decisions of larger industry participants including large companies that have substantially greater market presence and financial, technical, operational, marketing and other resources and experience than In-Touch.

c) Evolving Business Model

In-Touch's business model continues to evolve. In-Touch seeks to develop and promote new or complementary solutions and products to expand the breadth and depth of its service offerings. There can be no assurance that In-Touch will be able to expand its operations in a cost-effective or timely manner or that any such efforts will create, maintain or increase overall market acceptance.

d) Need to Manage Growth

The growth of In-Touch's business and its products and services causes significant demands on In-Touch's managerial, operational and financial resources. Demands on In-Touch's financial resources will grow rapidly with In-Touch's expanding customer base. Additional working capital may be required and there are no assurances that access to the capital required for the future growth and expansion plans will be available.

e) Dependency on Key Personnel

In-Touch's success will depend upon the continued service of its senior management team. In-Touch employees may voluntarily terminate their employment with In-Touch at any time. The loss of services of key personnel could have a material adverse effect upon In-Touch's business, financial condition and results of operation.

f) **Future Capital Needs**

In-Touch may need to raise funds through public or private financing in the event that In-Touch incurs operating losses or requires substantial capital investment or in order for In-Touch to respond to unanticipated competitive pressures or to take advantage of unanticipated opportunities. There can be no assurances that additional financing will be available on terms favourable to In-Touch or at all.

g) **Foreign Exchange Exposure**

In-Touch continues to seek expanding its operations into the US market. Fluctuations in the currency exchange rate may affect the revenue and operations of the company. The potential effect of the currency exchange rate fluctuations will be magnified as the percentage of sales to the US market grows.

CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity its bank indebtedness long-term debt (including current portion), net of cash as its capital. Covenants for this loan include current ratio and term debt to equity ratios. The Company was in compliance with these covenants throughout 2011. The Company was in breach as of January 1, 2010 of its covenants, however, during fiscal year 2010 and as at December 31, 2010, the Company was compliant with these covenants.

The Company also has certain positive covenants that it must meet with a Schedule 1 chartered Canadian bank in regards to its bank indebtedness, namely, a current ratio of at least 1.05:1, tangible net worth of at least $700,000 and total liabilities to tangible net worth ratio of not more than 2.0. As at December 31, 2011, the Company is compliant with all its covenants. On January 1, 2010 the Company was in breach of its current ratio and tangible net worth ratios. By December 31, 2010 the Company was compliant with all its covenants.

The Company defines capital as being equity plus debt, plus bank indebtedness, less cash.

	December, 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness	**$ -**	$ -	$ 496,261
Long-term debt, including current portion	**848,535**	595,458	714,348
			-
	848,535	595,458	1,210,609
Less cash	**201,104**	45,140	14,239
Net debt	**647,431**	550,318	1,196,370
Shareholders' equity	**2,212,302**	1,020,728	250,613
Total capital, net	**$ 2,859,733**	$ 1,571,046	$ 1,446,983
Net debt as a percentage of total capital	**23%**	35.0%	83.0%

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Board of Directors promotes year over year revenue increases with positive increases in earnings before interest, tax and amortization. These objectives are met through operational changes to enhance cash flow performance, the evaluation of acquisitions as they relate to the Company's market share and performance, and risk mitigation over exposure.

The Company is not subject to any statutory capital requirements and has no commitments, other than options, to sell or otherwise issue common shares.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2011 compared to the year ended December 31, 2010 or at January 1, 2010. The Company was successful in meeting its objectives.

FINANCIAL INSTRUMENTS

The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
Financial assets:						
Loans and receivables						
Cash	$	201,104	$	45,140	$	14,239
Trade and other receivables	$	2,341,884	$	1,310,707	$	1,310,957
Total financial assets	$	2,542,988	$	1,355,847	$	1,325,196
Financial liabilities:						
Other financial liabilities						
Bank indebtedness	$	-	$	-	$	496,261
Trade and other liabilities	$	907,569	$	378,134	$	593,624
Long-term debt	$	848,535	$	595,458	$	714,348
Due to related parties	$	-	$	40,000	$	40,000
	$	1,756,104	$	1,013,592	$	1,844,233
Liabilities at fair value through profit or loss						
Derivative	$	-	$	146,367	$	49,258
Contingent consideration	$	247,390	$	-	$	-
	$	247,390	$	146,367	$	49,258
Total financial liabilities	$	2,003,494	$	1,159,959	$	1,893,491

The carrying values of cash, trade and other receivables, bank indebtedness, trade and other liabilities and finance lease obligations approximate their fair values due to their relatively short periods to maturity. The derivative and contingent consideration are presented at fair value. The carrying value of due to related parties approximate its fair value. The fair value of the long-term debt approximates the carrying value as the risk profile of the Company has not changed significantly since those loans were negotiated and the borrowing terms and conditions continue to reflect current market conditions.

The fair value of the derivative is arrived at by the use of a Monte Carlo simulation that estimates the ultimate settlement of the debt based on the Company's stock price, number of shares outstanding and time to maturity at the date of fair valuing and the following assumptions:

	December 31, 2011	December 31,2010	January 1, 2010
Volatility	-	129%	99.6%
Interest rate	-	1.3%	1.3%

The fair value of the contingent consideration was determined based on the estimated revenues to be earned from the acquired customers, using a probability-weighting method. The resulting contingent consideration has been present value based on the resulting cash flows. This reflects management's estimate of the royalty payment which has been discounted using an interest rate of 18%.

The following table presents the Company's financial instruments measured at fair value in the statement of financial position in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative	$ -	$ -	$ -	$ -	$ 146,367	$ -	$ -	$ 49,258	$ -
Contingent consideration	$ -	$ -	$ 247,390	$ -	$ -	$ -	$ -	$ -	$ -

There has been no change to classification during the years presented.

Level 3 fair value measurements

Contingent consideration classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instrument within this level can be reconciled from the beginning to ending balances as follows:

	December 31, 2011	**December 21, 2010**
Opening balance	**$ -**	**$ -**
Business combination	**241,376**	
Payments made	**(137,948)**	
Loss recognized in net earnings	**43,962**	
Closing balance	**$247,390**	

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in net earnings or total liabilities.

SHARES

The share capital of the Company consists of an unlimited number of common shares, without par value. All shares are equally eligible to receive dividends, the repayment of capital and represent one vote at the shareholders' meetings

During the year ended December 31, 2011 the Company issued 523,333 common shares resulting from the exercise of stock options (65,000 were issued during 2010). At December 31, 2011 and as of the date of this Management Discussion and Analysis, there were 14,226,312 common shares outstanding.

RELATED PARTY TRANSACTIONS

On December 8, 2005, a Company controlled by the Chair of the Board of Directors provided the Company with a demand loan in the amount of $40,000. Monthly interest is to be paid at 2% of the outstanding balance. As at December 31, 2008, accrued interest of $28,605 was converted as well as all outstanding principal into a promissory note bearing interest at 10%, payable in equal monthly instalments. Also included was an outstanding account for services of $104,430 bringing the total of the promissory note to $172,235. During the year 2011 principal and interest payments were made totalling $60,953 bringing the balance to $Nil (2010 - $58,070) (Note 21). The promissory note was paid full during 2011.

During 2011, the Company expensed $34,000 (2010 - $20,500) as compensation to non-management directors within general and administrative expenses in the statement of operations. The 2011 expense was paid in full in 2011 ($20,500 paid in 2010).

During fiscal 2011, the Company obtained legal services at a cost of $6,027 (2010 - $2,320) from a law firm in which one of the Company's directors is a principal. At December 31, 2010, $4,500 had been paid (2010 - $2,320 paid) and $1,527 remained outstanding (2010 - $Nil).

During fiscal 2011, the Company obtained consulting services at a cost of $Nil (2010 - $4,400) from a firm in which one of the Company's directors is a principal. At December 31, 2010, $3,600 had been paid and $800 remained outstanding. The remaining amount was paid in full during 2011.

The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements of In-Touch Survey Systems Ltd. and all information contained herein are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates that have been made using careful judgement.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial and operating data elsewhere in the report are consistent with the information contained in the financial statements.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements. The Board of Directors meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the financial statements and financial reporting matters.

Additional information about the Company such as the 2011 audited consolidated financial statements can be found on SEDAR at www.sedar.com.

Consolidated Financial Statements

In-Touch Survey Systems Ltd.

Years ended December 31, 2011 and 2010

(Expressed in Canadian Dollars)

In-Touch Survey Systems Ltd.
Consolidated Financial Statements
December 31, 2011 and 2010

	PAGE
Management's Report	
Auditor's Report	
Consolidated Statements of Earnings and Comprehensive Income	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Changes in Equity	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 33

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards ("IFRS") and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

In-Touch Survey Systems Ltd. maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of two Directors who are not employees of the Company. The Committee meets periodically throughout the year with management and external auditors to review their respective responsibilities, results of the reviews of internal accounting controls, policies and procedures and financial reporting matters. The external auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by Raymond Chabot Grant Thornton LLP, the external auditors, whose report follows.

April 30, 2012

Michael Gaffney
Chief Executive Officer

George Pretli
acting Chief Financial Officer

Raymond Chabot Grant Thornton

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
2505 St-Laurent Blvd.
Ottawa, Ontario K1H 1E4

Telephone: 613-236-2211
Fax: 613-236-6104
www.rcgt.com

To the Shareholders of
In-Touch Survey Systems Ltd.

We have audited the accompanying consolidated financial statements of In-Touch Survey Systems Ltd., which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of earnings and comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International financial reporting standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of In-Touch Survey Systems Ltd. as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
April 30, 2012

In-Touch Survey Systems Ltd.

Consolidated Statements of Earnings and Comprehensive Income

years ended December 31, 2011 and 2010
(in Canadian Dollars)

	Note	2011	2010
Revenue		$ 8,930,735	$ 5,893,125
Cost of services	8	4,366,655	2,355,983
		4,564,080	3,537,142
Expenses	31		
Selling	9	720,154	384,018
General and administrative	10	2,337,318	1,949,536
Product development	11	438,608	208,176
		3,496,080	2,541,730
Earnings from operating activities		1,068,000	995,412
Non-operating earnings (expense)			
Finance costs	27	(68,555)	(94,967)
Loss on foreign exchange		(8,259)	(45,235)
Loss on extinguishment of long-term debt	20	(147,748)	-
Loss on fair value of derivative	20	(104,128)	(97,109)
Loss on fair value of contingent consideration	6	(29,610)	-
Net earnings before income taxes		709,700	758,101
Income taxes			
Deferred tax recovery	28	419,104	-
Current income tax		(13,900)	-
Net earnings and comprehensive income		$ 1,114,904	$ 758,101
Net earnings per share	12		
Basic		$ 0.08	$ 0.06
Diluted		$ 0.08	$ 0.05

The accompanying notes are an integral part of the consolidated financial statements

In-Touch Survey Systems Ltd.

Consolidated Statements of Financial Position

As at December 31, 2011, December 31, 2010 and January 1, 2010
(in Canadian Dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current Assets				
Cash		$ 201,104	$ 45,140	$ 14,239
Trade and other receivables	14	2,381,101	1,349,337	1,477,410
Investment tax credits recoverable		-	15,449	7,928
Prepaid expenses and deposits		43,810	67,073	42,980
		2,626,015	1,476,999	1,542,557
Property and equipment	15	660,830	733,153	903,531
Deferred tax assets	28	398,530	-	-
Investment tax credit recoverable		176,139	-	-
Intangible assets	16	409,951	-	-
Goodwill	17	100,000	100,000	100,000
		$ 4,371,465	$ 2,310,152	$ 2,546,088
Liabilities and Shareholders' Equity				
Current Liabilities				
Bank indebtedness	18	$ -	$ -	$ 496,261
Trade and other liabilities	19	907,569	378,134	593,624
Income taxes payable	28	13,900	-	-
Deferred revenue	14	141,769	129,465	376,265
Current portion of long-term debt	21	456,368	146,558	114,967
Current portion of contingent consideration	6	143,210	-	-
Current portion of finance lease obligations	22	-	-	24,941
		1,662,816	654,157	1,606,058
Long-term debt	21	392,167	448,900	599,381
Due to related parties	30	-	40,000	40,000
Deferred lease inducement		-	-	778
Derivative financial instrument	20	-	146,367	49,258
Contingent consideration	6	104,180	-	-
		2,159,163	1,289,424	2,295,475
Shareholders' Equity				
Share capital	23	8,395,401	8,302,716	8,288,867
Contributed surplus	24	61,584	77,599	79,434
Deficit		(6,244,683)	(7,359,587)	(8,117,688)
		2,212,302	1,020,728	250,613
		$ 4,371,465	$ 2,310,152	$ 2,546,088

ON BEHALF OF THE BOARD

Original signed by: Neil Milton, Director

Original signed by: Michael Gaffney, Director

The accompanying notes are an integral part of these consolidated financial statements

In-Touch Survey Systems Ltd.

Consolidated Statements of Changes in Equity

years ended December 31, 2011 and 2010
(in Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance as at January 1, 2010	35	13,637,979	$ 8,288,867	$ 79,434	$ (8,117,688)	$ 250,613
Net earnings for the twelve months ended December 31, 2010		-	-	-	758,101	758,101
Issuance of share capital related to the exercise of stock options	23	65,000	7,800	-	-	7,800
Stock-based compensation	24	-	-	4,214	-	4,214
Fair value of exercised stock options		-	6,049	(6,049)	-	-
Balance as at December 31, 2010	35	13,702,979	$ 8,302,716	$ 77,599	$ (7,359,587)	$ 1,020,728
Net earnings for the twelve months ended December 31, 2011		-	-	-	1,114,904	1,114,904
Issuance of share capital related to the exercise of stock options	23	523,333	52,333	-	-	52,333
Stock-based compensation	24	-	-	24,337	-	24,337
Fair value of exercised stock options		-	40,352	(40,352)	-	-
Balance as at December 31, 2011		14,226,312	$ 8,395,401	$ 61,584	$ (6,244,683)	$ 2,212,302

The accompanying notes are an integral part of these consolidated financial statements

In-Touch Survey Systems Ltd.

Consolidated Statements of Cash Flows

years ended December 31, 2011 and 2010
(in Canadian Dollars)

	Note	2011	2010
CASH PROVIDED BY (USED IN):			
Operating activities			
Net earnings		$ 1,114,904	$ 758,101
Adjustments to net earnings:			
Amortization of property and equipment	15	291,493	266,241
Amortization of intangible asset	16	41,346	-
Finance costs	27	68,555	94,967
Loss on extinguishment of long-term debt	20	147,748	-
Loss on fair value of derivative	20	104,128	97,109
Change in fair value of contingent consideration	6	29,610	-
Loss on foreign exchange related to contingent			-
consideration and deferred cash payment		16,905	-
Stock-based compensation	24	24,337	4,214
Decrease in deferred lease inducement		-	(778)
Gain on disposal of property and equipment		(4,284)	(4,698)
Deferred tax recovery	28	(419,104)	-
Investment tax credit recoverable		(176,139)	-
Net change in non-cash operating working capital	26	(481,413)	(365,831)
Cash flows from operating activities		758,086	849,325
Financing activities			
Decrease in bank indebtedness	18	-	(496,261)
Issuance of share capital	23	52,333	7,800
Repayment of due to related parties	30	(40,000)	-
Repayment of long-term debt	21	(145,166)	(118,890)
Payment of finance lease obligations	22	-	(24,941)
Finance costs paid		(68,555)	(94,967)
Payment of contingent consideration	6	(137,948)	-
Cash flows from financing activities		(339,336)	(727,259)
Investing activities			
Business combination	5	(47,900)	-
Proceeds on disposal of property and equipment	15	11,437	25,317
Purchase of property and equipment	15	(226,323)	(116,482)
Cash flows from investing activities		(262,786)	(91,165)
NET CASH INFLOW		155,964	30,901
CASH, BEGINNING OF YEAR		45,140	14,239
CASH, END OF YEAR		$ 201,104	$ 45,140
Additional Information			
Interest received		-	-
Income tax paid		-	-

The accompanying notes are an integral part of the these consolidated financial statements

1. CORPORATE INFORMATION

In-Touch Survey Systems Ltd. ("In-Touch" or "Company") is a publicly listed company and is incorporated under the Canada Business Corporations Act. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol INX. The address of In-Touch's registered office and its principal place of business is 400 March Road, Ottawa, Ontario, Canada K2K 3H4.

In-Touch and its subsidiaries primary business activity is the design, development and implementation of data capture technologies and services for business to consumer ("B2C") companies. The technology enables B2C companies to capture lead and customer feedback information onsite at the point of experience, i.e. while shopping, or at a trade show or offsite marketing event.

The consolidated financial statements are presented in Canadian dollars.

2. STATEMENT OF COMPLIANCE AND MEASUREMENT

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). On April 30, 2012 the Company's Board of Directors approved these consolidated financial statements and authorized them for issue.

These are the Company's first annual IFRS consolidated annual financial statements and therefore First-time Adoption of IFRS ('IFRS1") has been applied. Previously, the Company prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") in effect prior to IFRS conversion (Part V of the CICA handbook). In accordance with IFRS 1, the Company has restated comparative financial information to be in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flow of the Company is provided in Note 34.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies set out in Note 4.

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE COMPANY

At the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. These have not been early adopted by the Company. The Company is still assessing the impact on the Company's consolidated financial statements of the adoption of the following standards and amendments.

The IASB issued IFRS 9 with an aim to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Company's management have yet to assess the impact of this new standard on the Company's consolidated financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

IFRS 10 - Consolidated Financial Statements, supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and Standing Interpretations Committee ("SIC") 12 Consolidation – Special Purpose Entities. IFRS 10 revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same. IFRS 11 Joint Arrangements establishes principles for the financial reporting by parties to a joint arrangement. Among other things, the use of the proportionate consolidation method is no longer permitted for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures. IFRS 12 - Disclosure of Interests in Other Entities combines and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures

about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used throughout all periods presented in the financial statements, except where the Company has applied certain accounting policies and exemptions upon transition to IFRS (see note 39 for details).

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries which include In-Touch Insight Systems Inc., MarketLine Research Corp. and In-Touch Insight Systems Corp. In-Touch Insight Systems Inc. is a Canadian company while MarketLine Research Corp. and In-Touch Insight Systems Corp. are incorporated in the U.S. All intercompany transactions and balances have been eliminated. All subsidiaries have a reporting date of December 31st.

(b) Functional currency and foreign currency translation

These consolidated financial statements are presented in Canadian Dollars, which is also the Company's (and its subsidiaries) functional currency.

Transactions in foreign currency are translated into the functional currency using the exchange rate in effect on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at the reporting date exchange rate are recognized in net earnings. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction (not retranslated). The functional currency of the Company's subsidiaries remained unchanged during the reporting period.

(c) Business combinations

Business combinations occurring after January 1, 2010 are accounted for using the acquisition method under IFRS 3, Business Combinations (IFRS 3). The consideration transferred by the Company to obtain control of an entity is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at the acquisition-date fair values. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognized amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest that the Company has in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in net earnings immediately.

See Note 34 for information on business combinations prior to January 1, 2010.

(d) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. See note 4(c) for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 4(f) for a description of impairment testing procedures.

(e) Intangible assets

Intangible assets are comprised of customer relationships and a shopper database which qualified for recognition as intangible assets in a business combination (Note 5). They are recognized at historical cost (which corresponds to their fair value at the acquisition date) less accumulated amortization and accumulated impairment losses.

The Company amortizes the customer relationships on a straight-line basis over a six and one half year period, and the shopper database over a one and a quarter year period.

The useful lives and residual values are reviewed at each reporting date, taking the nature of the asset and its expected use into account.

(f) Impairment testing of goodwill, other intangible assets and property and equipment

Goodwill, intangible assets and property and equipment are reviewed at each reporting date to determine whether events or changes in circumstances indicate that the carrying amount of the asset or related cash generating unit ("CGU") may not be recoverable. If any such indication exists, then the asset's or CGU's recoverable amount is estimated. For the goodwill the recoverable amount is estimated at least once a year.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net earnings. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(g) Segmented information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of its other components, whose operating results are reviewed regularly by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's Chief Executive Officer evaluates performance based on four segments, which are the service lines of the Company: electronic data collection ("EDC"), manual data collection ("MDC"), market research ("MKR") and information management services ("IMS"). .

The measurement policies used by the Company for segment reporting are the same as those used in its financial statements, except for income taxes, which are not included in the operating profit of the operating segments. Expenses which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

(h) Revenue recognition

The Company receives revenue from consulting, custom development, system use and license fees. The Company also receives revenue from reporting to clients on the results of mystery shopping. Mystery shopping occurs when people, posing as prospective customers, visit assigned client locations to shop for products and services and assess employee performance against specific criteria.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for services provided, excluding sales tax, and discounts.

Revenue is recognized when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for the different activities have been met. These activity-specific recognition criteria are based on the service provided to the customer and the contract conditions in each case, and are described below.

When two or more revenue generating activities or deliverables are sold under a single arrangement, revenue criteria are applied to each deliverable that is considered to be a separately identifiable component of the revenue transaction. The allocation of consideration from these transactions is allocated to the separately identifiable components based on the relative fair values of each component. This policy is applicable to EDC revenue streams.

Revenue from consulting and custom development fees is recognized using the stage of completion of the contract, taking into consideration the cost completed to date in relation to the total expected cost to complete

the deliverable. If the estimated cost to complete a contract increases over the life of the contract resulting in a loss on the contract, the loss is recognized immediately into profit and loss. Revenue from system usage and license fees is recognized over time. The revenue from these activities is reported in the EDC segment.

Revenue from consulting is recognized using the stage of completion basis using output measures of completion. This policy is applicable to MKR revenue streams.

Revenue from government services consulting is recognized when evidence of an arrangement exists and the services have been rendered. This policy is applicable to IMS revenue streams.

Revenue from mystery shopping is recognized using the stage of completion basis using output measures of completion. This policy is applicable to MDC revenues.

Unbilled receivables arise where consulting services are performed prior to the Company's ability to invoice in accordance with the contract terms. These amounts are included in trade and other receivables on the statement of financial position.

Deferred revenue is recorded when a customer is invoiced in advance of performance. This policy is applicable to revenue from all segments.

(i) Provisions

Provisions are recognized when the following criteria are met:

a) the Company has a current obligation as a result of a past event;
b) it is probable that an outflow of economic resources will be required from the Company; and
c) the amounts can be estimated reliably.

The timing or amount of the outflow may still be uncertain.

Provisions are established at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Company has no provisions as at December 31, 2011 and 2010 and January 1, 2010.

(j) Investment tax credit

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. These credits can be applied against future income taxes payable and are subject to a 20 year carry forward period. An estimate of the refundable investment tax credit on scientific research and development expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the credits will be received. The expenditures are reduced by the amount of the estimated investment tax credit.

(k) Property and equipment

Property and equipment are stated at cost less accumulated amortization and impairment losses. Amortization is provided over the estimated useful lives of the assets using the following annual rates and term:

Computer equipment	30%	Declining-balance
Kiosks	20%	Declining-balance
Kiosk tablets	3 – 5 years	Straight-line
Furniture and equipment	20%	Declining-balance

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the general and administrative expenses. The asset residual values, useful lives and methods of amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

(l) Leased assets

In accordance with IAS 17 - Leases, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease obligation.

Amortization methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets legally owned by the Company. The corresponding finance lease obligation is reduced by lease payments less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to net earnings over the lease period.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis in accordance with the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(m) Equity

Share capital represents the amount received for shares that have been issued less transaction costs directly attributable to the issuance of common shares net of any related income tax benefits. Contributed surplus within equity, includes amounts in connection with stock-based compensation.

Deficit includes all current and prior period earnings (losses).

(n) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the net earnings attributable to the shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings attributable to shareholders and the weighted average number of shares outstanding, for the effects of all potential dilutive shares.

(o) Stock-based compensation

The Company accounts for stock-based compensation arrangements using the fair value method of accounting. When employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date.

The share-based compensation cost is recorded as an expense in net earnings and credited to contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of awards expected to vest. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if awards ultimately exercised are different to that estimated on vesting.

An award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective grants.

When stock options are exercised any consideration paid by employees is credited to share capital in addition to the amount previously recorded in contributed surplus.

The Company’s plan does not feature any options for cash settlement.

(p) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except for items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future and provided that the Company can control the reversal of those differences. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the expected tax rates applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in net earnings, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(q) Critical accounting estimates and judgments

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Assessing the stage of completion of revenue

The stage of completion of revenue is assessed by Management by taking into consideration all information available at the reporting date. In this process, management estimates for each project's milestones, actual work performed, the costs to complete the work and the value of the work completed. Further information on the Company's accounting policy for revenue recognition is provided in Note 4(h).

Assessing the probability of utilizing deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 28. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Details of the assets and liabilities acquired are given in Note 5.

Contingent consideration

The fair value initially recognized for contingent consideration has been estimated by management based on the Company's projected revenues from existing SI customers (see Notes 5 & 6). The actual contingent consideration may vary due to timing of contingent consideration and actual revenue earned from existing SI customers.

Useful lives of intangible assets

The useful lives of intangible assets have been determined based on management estimated attrition rates related to the associated asset. Any subsequent change in these estimates would affect the amount of amortization recorded over future periods.

(r) Financial instruments

When the Company becomes a party to contractual provisions of the financial instruments, these are initially recorded on the statements of financial position at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. After initial recognition, the financial instruments are measured according to their classification or designation as described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

The Company has made the following classifications and designations:

Classification	
Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Bank indebtedness	Other financial liabilities
Trade and other liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Due to related parties	Other financial liabilities
Derivative financial instrument	Fair value through profit or loss
Contingent consideration	Fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets and liabilities in this category are measured at fair value with gains or losses recognised in net earnings. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any allowance for doubtful accounts.

Financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Hierarchy of Financial Instruments

The Company categorizes its financial instruments, measured at fair value in the consolidated statement financial position, including its financial assets, financial liabilities and derivative financial instruments, into a three-level fair value measurement hierarchy as follows:

Level 1: The fair value is determined directly by reference to unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: The fair value is estimated using a valuation technique based on observable market data, either directly or indirectly. The embedded derivative is included in this level

Level 3: The fair value is estimated using a valuation technique based on unobservable data. The contingent consideration is included in this level.

(s) Embedded derivatives

Derivatives can be embedded in other financial and non-financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and the risks they present are not closely linked to those of the host instrument, the terms and conditions of the embedded derivative are the same as those of an autonomous derivative, and the combined instrument is not held for trading purposes or measured at fair value. These derivatives are measured at fair value and changes are recognized in income. As at December 31, 2011 the Company has $Nil (December 31, 2010 - $146,367 and January 1, 2010 - $49,258) recorded as a derivative financial instrument (see Note 20).

5. BUSINESS COMBINATION

On August 1, 2011 as part of its strategy of growth through acquisitions, the Company entered into an outsourcing and business transfer agreement with SI International, ULC (“Service Intelligence” or “SI”) and Global Compliance Services, Inc. (“GCS”), the parent of SI, companies both based in the United States. The transaction resulted in the transfer of assets from SI (the acquiree) and the Company taking on certain employees, which would enable In-Touch to service SI existing customers through the outsourcing agreement. Service Intelligence is a company operating in the manual data collection segment, in both Canada and the United States.

The Company has accounted for this transaction as a business combination under IFRS 3 as the group of assets acquired met the definition of a business.

The following table summarizes net assets acquired. The valuation was performed by the Company based on internal appraisals of the fair value of the intangible assets acquired.

Value recognized on the acquisition date		
Customer related intangible asset	$	409,837
Shopper database intangible asset	$	41,460
Deferred tax liability	$	(20,574)
Total net assets acquired	$	430,723
Contingent consideration	$	341,376
Cash payment	$	47,900
Deferred cash payments	$	41,447
Total consideration transferred	$	430,723

The current and deferred cash outflows related to the acquisition will be a maximum of $502,950 ($525,000 USD), which consists of cash payments of $47,900 ($50,000 USD) upon signing of the agreement with another $41,447 ($43,267 USD) of deferred cash payments to be paid over the first two quarters of 2012. The deferred cash payments have been included in trade and other liabilities. The Company will also make payments related to contingent consideration of ten percent royalty to be paid during the first year, based on the aggregate gross revenues earned for the existing SI customers to a maximum of $239,500 ($250,000 USD) and a five percent royalty to be paid during the second year, based on the aggregate gross revenues earned for the existing SI customers to a maximum of $167,650 ($175,000 USD). On the date of the acquisition the Company recorded the fair value of the contingent consideration at $341,376. The initially recognized contingent consideration represents the present value of the Company's estimate of the probability-weighted cash outflows. It reflects management's estimate of the maximum royalty payments which have been discounted using an interest rate of 18%.
For the year ended December 31, 2011, the acquired business added revenues of $1,773,331 and $247,257 to operating earnings since the acquisition date. It is not possible to provide the revenue and earnings of the combined entity for the year as if the acquisition had occurred on January 1, 2011, because of the lack of details in Service Intelligence’s management system prior to the acquisition.

Acquisition-related costs amounting to $4,850 are not included as part of the consideration transferred and have been recognized as general and administrative expenses.

6. CONTINGENT CONSIDERATION

The following table summarizes information about contingent consideration (See Note 5):

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Contingent consideration due to GCS in the form of royalty payments based on future revenue (see Note 5)	$ 341,376	$ -	$ -
Paid during the year	$ (137,948)		
Loss on fair value	$ 29,610		
Loss on foreign exchange	$ 14,352		
Contingent consideration	$ 247,390	$ -	$ -
Less current portion	$ (143,210)		
	$ 104,180	$ -	$ -

7. SEGMENTED INFORMATION

The Company provides services to its customers in a market referred to as data collection and reporting services. The Company evaluates performance and allocates resources on the same basis as the statement of operations. The CEO is the chief operation decision maker of the Company.

Revenues and expenses from data collected by electronic means (kiosk, tablet, internet etc.) are defined in the In-Touch financial statements as electronic data collection ("EDC"), revenues and expenses generated by Mystery Shoppers are defined as manual data collection ("MDC"), revenues and expenses generated by traditional market research methods are defined as market research ("MKR") and government services revenues and expenses are defined as information management systems ("IMS").

The following is an analysis of the reported segment revenues and expenses reconciled to the Company's consolidated financial statements. The analysis also provides the additions to non-current assets allocated to the segments

The unallocated corporate expenses are mainly costs associated to running the public Company and include Board of Director fees, shareholder reporting fees and public company listing fees.

For the year ending December 31, 2011	**EDC**	**MDC**	**MKR**	**IMS**	**Total Segments**	**Unallocated corporate expenses**	**Total**
Revenue from external customers	**$3,285,240**	**$4,273,928**	**$ 69,632**	**$1,301,935**	**$ 8,930,735**	**$ -**	**$ 8,930,735**
Cost of services	**1,185,840**	**2,331,121**	**32,643**	**817,051**	**4,366,655**	**-**	**4,366,655**
Gross margin	**$2,099,400**	**$1,942,807**	**$ 36,989**	**$ 484,884**	**$ 4,564,080**	**$ -**	**$ 4,564,080**
Expenses	**(2,330,225)**	**(879,344)**	**(22,313)**	**(162,222)**	**(3,394,104)**	**(101,976)**	**(3,496,080)**
Finance costs	**(60,892)**	**(3,108)**	**(4,555)**	**-**	**(68,555)**	**-**	**(68,555)**
Gain (loss) on foreign exchange	**5,935**	**(19,004)**	**-**	**-**	**(13,069)**	**4,810**	**(8,259)**
Loss on extinguishment of long-term debt	**(147,748)**	**-**	**-**	**-**	**-**	**-**	**(147,748)**
Loss on fair value of derivative	**(104,128)**	**-**	**-**	**-**	**-**	**-**	**(104,128)**
Loss on fair value of contingent consideration	**-**	**(29,610)**	**-**	**-**	**(29,610)**	**-**	**(29,610)**
Net earnings (loss) before income taxes	**$ (537,658)**	**$1,011,741**	**$ 10,121**	**$ 322,662**	**$ 1,058,742**	**$ (97,166)**	**$ 709,700**
Intangible assets acquired	**-**	**$451,297**	**-**	**-**	**-**	**-**	**$451,297**
Property and equipment expenditures	**$ 189,237**	**$ 37,086**	**$ -**	**$ -**	**$ 226,323**	**$ -**	**$ 226,323**

For the year ending December 31, 2010	EDC	MDC	MKR	IMS	Total Segments	Unallocated corporate expenses	Total
Revenue from external customers	$ 3,134,407	$2,385,440	$ 303,149	$ 70,129	$5,893,125	$ -	$5,893,125
Cost of services	1,023,000	1,069,582	226,384	37,017	2,355,983	-	2,355,983
Gross margin	$2,111,407	$1,315,858	$ 76,765	$ 33,112	$ 3,537,142	$ -	$ 3,537,142
Expenses	(1,641,740)	(608,122)	(95,897)	(61,256)	(2,407,015)	(134,715)	(2,541,730)
Finance costs	(90,003)	-	(4,964)	-	(94,967)	-	(94,967)
Loss on foreign exchange	(44,733)	-	-	-	(44,733)	(502)	(45,235)
Loss on fair value of derivative	(97,109)	-	-	-	(97,109)	-	(97,109)
Net earnings (loss) before income taxes	$ 237,822	$ 707,736	$ (24,096)	$ (28,144)	$ 893,318	$ (135,217)	$ 758,101
Property and equipment expenditures	$ 116,482	$ -	$ -	$ -		$ -	$ 116,482

Geographical

The Company reports its revenue by geographical location of its customers. No significant property and equipment are maintained outside of Canada.

	2011	2010
Canada	$ 4,979,591	$ 3,178,825
US	$ 3,951,144	$ 2,714,300
Total revenue	$ 8,930,735	$ 5,893,125

Major customers

Revenues from specific clients, each with 10% or more of total Company revenues, are summarized as following:

	Reporting segment	2011	2010
Customer 1	EDC	$ 1,401,876	$ 1,291,445
Customer 2	MDC	$ 1,281,309	$ 1,256,608
Customer 3	IMS	$ 1,235,707	$ -
Total dollars		$ 3,918,892	$ 2,548,053

Major trade receivables

Trade receivables from specific clients, each with 10% or more of total Company trade receivables, are summarized as following:

	Reporting segment	2011	2010
Customer 1	IMS	$ 390,294	$ -
Customer 2	EDC	$ 290,795	$ 277,067
Customer 3	MDC	$ -	$ 377,938
Total dollars		$ 681,089	$ 655,005

8. COST OF SERVICES

During the year ended December 31, 2011 the Company recorded amortization expense of $258,564 (December 31, 2010 - $230,693) within cost of services. Salaries and benefits charged to cost of services was $486,917 in 2011 compared to $295,539 in 2010.

9. SELLING EXPENSES

Selling expenses for the Company are broken down as follows:

		2011		2010
Marketing expenses	$	174,688	$	97,577
Travel expenses	$	149,784	$	67,572
Salaries and benefits	$	395,682	$	218,869
Selling expenses	$	720,154	$	384,018

10. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the Company are broken down as follows:

		2011		2010
Corporate administration	$	606,180	$	428,537
Consultant fees	$	217,045	$	93,001
Professional fees	$	90,212	$	65,890
Listing fees	$	58,615	$	43,455
Salaries and benefits[(1)]	$	1,295,813	$	1,286,934
Gain on disposal of property and equipment	$	(4,284)	$	(4,698)
Amortization expense	$	73,737	$	36,417
General and administrative expenses	$	2,337,318	$	1,949,536

[(1)] Stock-based compensation (a non-cash item) of $24,337 (2010 - $4,214) has been included in Salaries and benefits

11. PRODUCT DEVELOPMENT

Product development expenses for the Company are broken down as follows:

		2011		2010
Salaries and benefits	$	605,689	$	206,404
Product purchases	$	9,058	$	1,772
ITC tax recognition	$	(176,139)	$	-
Product development expenses	$	438,608	$	208,176

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the relevant periods is based on the following information:

	2011	2010
Weighted average number of common shares - basic	14,028,257	13,643,396
Additions to reflect the dilutive effect of employee stock options	245,001	546,667
Weighted average number of common shares - diluted	14,273,258	14,190,063

13. EMPLOYEE REMUNERATION

Employee remuneration expenses for the Company are broken down as follows:

		2011		2010
Salaries and benefits	$	2,759,764	$	2,003,532
Stock-based compensation	$	24,337	$	4,214
Total salaries, benefits and stock-based compensation	$	2,784,101	$	2,007,746

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables consists primarily of trade receivable from billings of consulting, custom development, system use and license fees and reports as well as other receivables.

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade accounts receivable, gross	$ 2,341,884	$ 1,230,228	$ 1,215,704
Allowance for doubful accounts	$ -	$ -	$ -
Trade accounts receivable, net	$ 2,341,884	$ 1,230,228	$ 1,215,704
Other receivables	$ -	$ 80,479	$ 95,253
Unbilled receivables	$ 36,176	$ 34,340	$ 165,857
Sales tax	$ 3,041	$ 4,290	$ 596
Trade and other receivables	$ 2,381,101	$ 1,349,337	$ 1,477,410

Trade receivables past due but not impaired can be shown as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
1 - 60 days past due	$ 870,103	$ 277,025	$ 580,684
Greater than 60 days past due	$ 165,790	$ 234,505	$ 229,918
	$ 1,035,893	$ 511,530	$ 810,602

The Company's exposure to individual customers is limited with the ten largest customers as at December 31, 2011, on aggregate, accounting for 66% of the Company's total accounts receivable balance (December 2010 – 71%).

Management considers that the above-stated financial assets, including those 1-60 days and greater than 60 days, are of good credit quality. See Note 32 for a discussion of the Company's credit risk management activities.

The amounts recognized in the consolidated statements of financial position relating to contracts in progress at year-end are determined as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Aggregate amount of cost incurred and recognised profit and losses for all contracts in progress	$ 8,930,735	$ 5,893,125	$ 5,479,081
Less progress billings	$ 9,036,328	$ 5,988,250	$ 5,689,489
	$ (105,593)	$ (95,125)	$ (210,408)
Unbilled receivables	$ 36,176	$ 34,340	$ 165,857
Deferred revenue	$ 141,769	$ 129,465	$ 376,265

15. PROPERTY AND EQUIPMENT

The following tables summarize the changes in the carrying amount of property and equipment:

	Computer Equipment	Kiosks	Kiosk Tablets	Furniture and Equipment	Total
Cost:					
At January 1, 2010	$ 184,118	$ 892,451	$ 836,789	$ 63,821	$ 1,977,179
Additions	$ 14,626	$ 63,138	$ 37,929	$ 789	$ 116,482
Disposals	$ (5,656)	$ (283)	$ (33,823)	$ (3,093)	$ (42,855)
Transfers	$ -	$ -	$ -	$ -	$ -
At December 31, 2010	$ 193,088	$ 955,306	$ 840,895	$ 61,517	$ 2,050,806
Additions	$ 36,199	$ 24,939	$ 133,907	$ 31,278	$ 226,323
Disposals	$ (5,508)	$ -	$ (6,239)	$ -	$ (11,747)
Transfers	$ -	$ -	$ -	$ -	$ -
At December 31, 2011	$ 223,779	$ 980,245	$ 968,563	$ 92,795	$ 2,265,382

	Computer Equipment	Kiosks	Kiosk Tablets	Furniture and Equipment	Total
Accumulated Amortization:					
At January 1, 2010	$ 104,306	$ 540,002	$ 391,407	$ 37,933	$ 1,073,648
Amortization	$ 25,706	$ 72,422	$ 162,519	$ 5,594	$ 266,241
Disposals	$ (4,214)	$ (163)	$ (16,280)	$ (1,579)	$ (22,236)
Transfers	$ -	$ -		$ -	$ -
At December 31, 2010	$ 125,798	$ 612,261	$ 537,646	$ 41,948	$ 1,317,653
Amortization	$ 25,260	$ 66,745	$ 192,226	$ 7,262	$ 291,493
Disposals	$ (3,523)	$ -	$ (1,071)	$ -	$ (4,594)
Transfers	$ -	$ -	$ -	$ -	$ -
At December 31, 2011	$ 147,535	$ 679,006	$ 728,801	$ 49,210	$ 1,604,552

	Computer Equipment	Kiosks	Kiosk Tablets	Furniture and Equipment	Total
Carrying amounts:					
At January 1, 2010	$ 79,812	$ 352,449	$ 445,382	$ 25,888	$ 903,531
At December 31, 2010	$ 67,290	$ 343,045	$ 303,249	$ 19,569	$ 733,153
At December 31, 2011	$ 76,244	$ 301,239	$ 239,762	$ 43,585	$ 660,830

Included in the kiosk tablets are equipment from finance leases with a net book value of $55,137 as at January 1, 2010. These leases matured during the year ending December 31, 2010.

As at December 31, 2011, there were $29,959 fully amortized kiosk tablets in use (December 31, 2010 and January 1, 2010 - $Nil). All of the above assets are pledged as security for debt obligations as identified in Note 22. There were no impairment indicators as at the end of December 2011, 2010 and January 1, 2010.

16. INTANGIBLE ASSETS

Cost:	Acquired Customer relationships	Acquired Shopper database	Total
At December 31, 2010	$ -	$ -	$ -
Business combination (Note 5)	$ 409,837	$ 41,460	$ 451,297
At December 31, 2011	$ 409,837	$ 41,460	$ 451,297
Accumulated Amortization:			
At December 31, 2010	$ -	$ -	$ -
Amortization	$ 26,631	$ 14,715	$ 41,346
At December 31, 2011	$ 26,631	$ 14,715	$ 41,346
Carrying Amounts:			
At December 31, 2010	$ -	$ -	$ -
At December 31, 2011	$ 383,206	$ 26,745	$ 409,951

The above assets are the result of a business combination as presented in Note 5.

The remaining amortization period is seven months for the shopper database and six years for the customer relationships.

17. GOODWILL

The following table summarizes the changes in the carrying amount of goodwill:

Carrying amount:	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Balance, beginning of year	$ 100,000	$ 100,000	$ 100,000
Balance, end of year	$ 100,000	$ 100,000	$ 100,000

CGU's to which goodwill have been allocated have been tested as at December 31, 2011 and 2010 and as at January 1, 2010 and the Company concluded that the goodwill was not impaired as of those dates.

18. CREDIT FACILITIES

At the year ended December 31, 2011, bank indebtedness was $Nil ($Nil at December 31, 2010, $496,261 at January 1, 2010). The Company has credit facilities with a chartered bank that bears interest at prime plus 6.0% (2010 – prime plus 6%), and is repayable upon demand and secured by a general security agreement. On January 1, 2010, the Company was in breach of covenant ratios. By the end of the first quarter of 2010, the Company was back within its covenant ratios. The Company continues to be on-side with all financial covenant ratios. The Company is authorized to borrow up to $450,000.

The Company has successfully negotiated a new banking agreement beginning in 2012 with another chartered bank that will provide credit facilities up to $1,250,000; a $1,000,000 demand operating loan at prime plus 1.5% and a $250,000 committed term facility at prime plus 2%.

19. TRADE AND OTHER LIABILITIES

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade payables	$ 366,153	$ 216,356	$ 383,456
Deferred cash payments, business combination (Note 5)	$ 44,000	$ -	$ -
Accrued liabilities and interest payable	$ 497,416	$ 161,778	$ 210,168
Total accounts payable and accrued liabilities	$ 907,569	$ 378,134	$ 593,624

20. DERIVATIVE FINANCIAL INSTRUMENT

During 2007, the Company obtained a loan in the amount of $550,000 subject to cash flow sweeps based on excess available funds and subject to a bonus interest payment due upon maturity (Note 21). Based on 2010 performance, the cash flow sweep for 2010, paid on February 17, 2011 was the yearly maximum of $110,000. The bonus interest is payable, based on a sliding scale ranging between 3-10% of the market capitalization of the Company and was valued at fair value at inception, and subsequently at the end of each reporting period. The bonus interest payment has been accounted as an embedded derivative and is fair valued at each reporting date.

The Company entered an agreement to refinance and thereby extinguish the bonus interest on the loan at the market capitalization effective August 24, 2011 (Note 21). The bonus was calculated with a rate of 8% of the Company's market capitalization of all outstanding shares of the Company at that time. On August 24, 2011, the market capitalization was $4,978,043 and the bonus payable which was converted to a term loan was $398,243. The new loan, in the amount of $398,243 is subject to cash flow sweeps based on excess available funds, was disbursed on December 29, 2011 and is repayable in 47 equal principal payments of $5,100 beginning in January 2012 and one final payment of $158,543 at maturity. As a result of the extinguishment the Company recorded a loss within the net earnings of $147,748. The loss is the result of the difference between the added debt and the fair value of the derivative of $250,495 as at August 24, 2011, the time of extinguishment.

The bonus interest was valued using an option pricing model taking into account market prices of the stock, volatility and remaining life. During the period ending August 24, 2011, the Company recorded through net earnings a loss on fair value of $104,128 based on assumptions of a stock price of $0.34, volatility of 129% and a risk free interest rate of 1.3%. Assumptions for December 31, 2010 were a stock price of $0.21, volatility of 129.0% and a risk free interest rate of 1.3%. At December 31, 2010, the fair value was $146,367 (January 1, 2010 - $49,258) with the loss in fair value being adjusted through net earnings for $97,109.

21. LONG TERM DEBT

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Installment loan, repayable in monthly installments of $4,167 plus interest at prime plus 2.75%, secured by a general security agreement over underlying assets and maturing on April 19, 2010.	$ -	$ -	$ 16,667
Installment loan, repayable in monthly installments of $2,778 plus interest at prime plus 2.75%, secured by a general security agreement over underlying assets and maturing on April 19, 2011.	$ -	$ 11,111	$ 44,444
Loan, bearing interest at 11.7%, repayable by one sole payment on maturity April 23, 2012, secured by a general security agreement over underlying assets. During the first quarter of 2011 $110,000 was paid in cash flow sweeps (2010 - $Nil). On August 24, 2011 the bonus payment due upon maturity of between 3% and 10% of market capitalization of all outstanding shares of the Company was extinguished in return for debt of $398,243 (Note 20). The loan is callable should the CEO resign his position.	$ 387,080	$ 497,080	$ 497,080
Installment loan,bearing interest at 13.5%, repayable in 47 monthly installments of $5,100 and a final payment of $158,543 subject to cash flow sweeps based on excess available funds, secured by a general security agreement over underlying assets, maturing December 23, 2015 (Note 20).	$ 398,243	$ -	$ -
Promissory note related to MarketLine acquisition, bearing interest at 7%, repayable in blended principal and interest 60 monthly installments of $1,004 USD ($1,021 CDN)and a final payment of $50,721 USD ($51,583 CDN) on May 1, 2013, unsecured.	$ 63,212	$ 69,197	$ 80,390
Promissory note, due to related party, bearing interest at 10%, repayable in blended principal and interest monthly installments of $5,541, secured by a general security agreement over underlying assets, maturing December 1, 2011 (Note 30).	$ -	$ 18,070	$ 75,767
	$ 848,535	$ 595,458	$ 714,348
Current portion of long-term debt	$ 456,368	$ 146,558	$ 114,967
Total long-term debt	$ 392,167	$ 448,900	$ 599,381

22. FINANCE LEASE OBLIGATIONS AND OPERATING LEASES

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Finance lease contract in the amount of $20,618, repayable in monthly installments of $1,085 inclluding interest at 5%, with a purchase option at fair market value at maturity on March 15, 2010.	$ -	$ -	$ 2,794
Finance lease contract in the amount of $24,939, repayable in monthly installments of $1,313 including interest at 41%, with a purchase option of $1 at maturity on April 15, 2010	$ -	$ -	$ 4,968
Finance lease contract in the amount of $42,634, repayable in monthly installments of $2,132 including interest at 18%, with a purchase option of $1 at maturity on April 30, 2010	$ -	$ -	$ 7,318
Finance lease contract in the amount of $71,896, repayable in monthly installments of $3,784 including interest at 29%, with a purchase option of $1,000 at maturity on March 31, 2010.	$ -	$ -	$ 10,498
Finance lease contract in the amount of $18,897, repayable in monthly installments of $995 including interest at 13%, with a purchase option at fair market value at maturity on February 15, 2010.	$ -	$ -	$ 1,707
Total amount of future minimum lease payments	$ -	$ -	$ 27,285
Executory costs and interest included in installments	$ -	$ -	$ (2,344)
	$ -	$ -	$ 24,941
Current portion	$ -	$ -	$ (24,941)
Finance lease obligations- non current	$ -	$ -	$ -

The above leases were paid in full by April 30, 2010 and on January 1, 2010, the leases were secured by the underlying assets with a net book value of $55,137.

The Company also has non-cancellable operating lease agreements for office space with terms extending to the year 2016. The operating lease rentals payable under these agreements are as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Less than one year	$ 218,122	$ 232,995	$ 242,205
Between one and five years	$ 555,432	$ 699,714	$ 135,949
More than five years	$ -	$ -	$ -
Total operating lease rental payments payable	$ 773,554	$ 932,709	$ 378,154

Operating lease expenses, which are charged to general and administrative expenses, were $232,915 for 2011 compared to $232,922 for 2010.

23. SHARE CAPITAL

Authorized:
The share capital of the Company consists of an unlimited number of common shares, without par value. All shares are equally eligible to receive dividends, the repayment of capital and represent one vote at the shareholders' meetings.

	Number of Common Shares issued and fully paid		Value
Balance at January 1, 2010	13,637,979	$	8,288,867
Issuance of common stock from exercise of options	65,000		13,849
Balance at December 31, 2010	13,702,979	$	8,302,716
Issuance of common stock from exercise of options	523,333		92,685
Balance at December 31, 2011	**14,226,312**	**$**	**8,395,401**

24. STOCK OPTION PLAN

The stock option plan is applicable to directors, officers, employees and consultants of the Company. The options are granted at the Company's current fair market value of the common shares under terms and conditions determined by the Board of Directors. Under the terms of the plan, the options generally vest proportionately over a three-year period and expire three years from the date of the grant. Certain options issued have reduced vesting periods and expiry dates. The Board of Directors has the right to modify vesting periods at the time of option grant. There were 1,095,000 options issued in 2011 (775,000 in 2010). The employee compensation expense related to options vested in fiscal 2011 is $24,337 (2010 - $4,214). The Company may issue up to 2,841,262 (2010 – 1,701,795) options for common shares under its stock option plan. At December 31, 2011, 1,041,262 common shares (401,795 at December 31, 2010) are reserved for additional options under this plan.

Pursuant to a resolution at the 2010 Annual General and Special Meeting, the Company's stock option plan was renewed until the 2013 Annual General Meeting.

A summary of the status of the Company's issued and outstanding stock options as of December 31, 2011 and December 31, 2010, and changes during the years ended on those dates, is presented below:

	2011		2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	**1,300,000**	**$ 0.10**	878,000	$ 0.12
Granted	**1,095,000**	**0.26**	775,000	0.10
Exercised	**(523,333)**	**0.10**	(65,000)	0.12
Forfeited	**(36,667)**	**0.20**	(205,000)	0.11
Expired	**(35,000)**	**0.10**	(83,000)	0.25
Outstanding, end of year	**1,800,000**	**$ 0.19**	1,300,000	$ 0.10

The weighted average share price at the date of exercise was $0.34 ($0.21 in 2010).

The following table summarizes information about stock options as at December 31, 2011:

	Options Outstanding		Options Exercisable
Exercise prices	Number outstanding at Dec. 31, 2011	Weighted average remaining contractual life (years)	Number exercisable at Dec. 31, 2011
$ 0.10	735,000	1.15	245,001
$ 0.20	260,000	2.50	-
$ 0.235	170,000	2.58	-
$ 0.28	510,000	2.75	-
$ 0.33	120,000	2.77	-
$ 0.36	5,000	2.58	-
$ 0.10 to $ 0.36	1,800,000	2.05	245,001

The following table summarizes information about stock options as at December 31, 2010:

	Options Outstanding		Options Exercisable
Exercise prices	Number outstanding at Dec. 31, 2010	Weighted average remaining contractual life (years)	Number exercisable at Dec. 31, 2010
$ 0.10	1,300,000	1.42	546,667
$ 0.10	1,300,000	1.42	546,667

Stock-based Compensation

The Company uses the Black-Scholes model to calculate option values. The assumptions using the Black-Scholes option pricing model for 2011 were: a weighted average share price and exercise price of $0.26, risk free interest rate of 1.5% to 2.5%, volatility of 130% with no expected dividend yield, 25% assumed forfeiture and a three year estimated life. Assumptions for 2010 were: a weighted average share price and exercise price of $0.10, risk free interest rate of 2.5%, volatility of 100% with no expected dividend yield, 40% assumed forfeiture and a three year estimated life.

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of three years.

The fair value of stock options granted during fiscal 2011 was $0.16 (2010 - $0.13).

25. EARN-OUT PAYMENTS TO NCI MOBILITY, LLC

On September 8, 2008, the Company acquired certain assets of NCI Mobility, LLC ("NCI"). As part of the agreement the Company is subject to an Earn-Out Payment contingent on future revenues. The Earn-Out Payment calls for a maximum payment of $750,000USD ($795,000CND) or 36 monthly payments to be made consisting of payments of $5,000USD ($5,300CND) per month if a minimum monthly revenue threshold of $90,000USD ($95,400CND) is met plus 30% of revenue above the monthly threshold to a maximum monthly payment of $20,800USD ($22,048 CND). There is no minimum Earn-Out Payment and all payments cease after thirty six months regardless of whether the maximum amount has been reached.

During fiscal 2011, $89,487USD ($88,370CND) was expensed under the Earn-Out agreement by NCI (2010 - $9,715USD or $10,041CND)). As at December 31, 2011, $121,127USD ($123,186CND) ($121,127USD or $120,473CND at year end 2010) had been paid to creditors. The agreement ended as at August 31, 2011 with no amounts owed to either party.

26. CASH FLOW INFORMATION

Net change in non-cash working capital items is comprised of:

		2011		2010
Trade and other receivables	$	(1,031,764)	$	128,073
Investment tax credits receivable	$	15,449	$	(7,521)
Prepaid expenses and deposits	$	23,263	$	(24,093)
Trade and other liabilities	$	485,435	$	(215,490)
Income taxes payable	$	13,900	$	-
Deferred revenue	$	12,304	$	(246,800)
Net change in non-cash working capital	$	(481,413)	$	(365,831)

27. FINANCE COSTS

Finance costs may be analyzed as follows for the fiscal year ending 2011 and 2010:

		2011		2010
Interest expense on loans	$	65,447	$	94,125
Interest expense on finance leases	$	-	$	842
Interest expense on contingent consideration	$	3,108	$	-
Finance costs	$	68,555	$	94,967

28. INVESTMENT TAX CREDITS AND INCOME TAXES

Research and development expenses

As at December 31, 2011, the Company has research and development costs of approximately $789,000 (2010 - $870,000) which are available indefinitely to reduce future years' Canadian taxable income. The Company also has investment tax credit carry forwards of approximately $176,000 (2010 - $193,000) expiring starting in 2022. The future tax benefits associated with undeducted research and development costs and investment tax credit carry forwards has been recognized in the financial statements.

Harmonization

Effective January 1, 2009, all Ontario tax balances have converted to federal tax balances. As a consequence of tax planning, the provincial tax balances of the Company and its subsidiaries will substantially equal their respective federal balances, with the exception of a harmonization tax credit of $1,138 that will be used up in the next two years.

Tax loss carry forwards

The Company has Canadian losses for income tax purposes of approximately $1,455,726 (2010- $1,283,504) available to reduce future federal and provincial taxable income. The Company has recorded a benefit related to $54,440 of loss carry forwards in the year. The remainder of the benefit of these tax loss carry forwards has not been recorded in these financial statements as management does not considers it to be probable that sufficient taxable profits will be available to allow the asset to be recovered before they expire. These losses expire as follows:

2014	**$**	**232,302**
2015		**181,338**
2026		**200,251**
2027		**115,012**
2028		**269,378**
2029		**145,997**
2030		**201,569**
2031		**109,879**
	$	**1,455,726**

The Company also has US federal and state losses for income tax purposes of approximately $258,000 (2010 - $367,000) available to reduce future taxable income. The US federal losses expire over the years 2029 and 2031.

The ability to realize the tax benefits from these losses, deductible temporary differences and investment tax credits is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax

losses, deductible temporary differences and investment tax credits arose. Deferred tax assets are recognized in respect of temporary differences giving rise to deferred tax assets only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. This determination is based on the management's quantitative and qualitative assessments and the weighing of all available evidence, both positive and negative. Such evidence included, notably, historical performance over the past two years and the Company's projected future taxable income.

Accordingly, no deferred tax asset has been recognized on the following tax losses carried forward and temporary differences:

	December 31, 2011	December 31, 2010
Income tax losses carried forward	**$ 1,659,801**	$ 1,649,580
Intangible assets	**31,988**	39,850
Property and equipment	**(13,245)**	1,997,917
Embedded derivative	**-**	146,367
Cumulative eligible capital	**39,850**	-
SR&ED expenditure pool	-	869,538
	1,718,394	4,703,252

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

	January 1, 2011	Recognized in business combination	Recognized in earnings	December 31, 2011
Income tax losses carried forward	-	24,750	13,837	38,587
Intangible assets	-	(45,324)	(32,582)	(77,906)
Investment tax credits	-		(131,370)	(131,370)
Property and equipment	-		363,395	363,395
SR&ED expenditure pool	-		200,509	200,509
Harmonization credit	-		1,138	1,138
Other	-		4,177	4,177
	-	(20,574)	419,104	398,530

Tax rate reconciliation

The actual tax provision differs from the expected provision for the following reasons:

	2011	2010
Income before income taxes	**$ 709,700**	$ 758,101
Combined Canadian Statutory tax rate	**28.25%**	31%
Expected tax expense (recovery)	**200,490**	235,011
Permanent differences	**8,278**	151
Tax effect of expired losses	**-**	59,552
Foreign tax rate differences	**(2,562)**	(2,247)
Effect of change in tax rates	**32,506**	(70,341)
Change in expectation of asset utilization	**(787,319)**	(205,844)
Other	**12,033**	(16,282)
Investment tax credits not previously recognized	**131,370**	-
	$ (405,204)	$ -

Income taxes comprises:		
Deferred tax recovery not previously recognized	**$(419,104)**	-
Current tax expense	**13,900**	-
	$(405,204)	-

The combined Canadian Statutory tax rate declined to 28.25% in 2011 as a result of a decline in federal and provincial tax rates.

29. KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation for key management personnel, including the Company's Officers and Board of Directors, was as follows for the year:

	For the year ended December 31, 2011	For the year ended December 31, 2010
Salaries	**$ 692,845**	$ 552,404
Directors' fees	**34,000**	20,500
Stock-based compensation	**7,316**	1,614
Total Key Management Compensation	**$ 734,161**	$ 574,518

Salaries include cash payments for base salaries and bonuses. Director's fees include meeting fees and retainers. Stock-based compensation include the compensation expense recognized during the year for key management personnel.

30. RELATED PARTY TRANSACTIONS

On December 8, 2005, a Company controlled by the Chair of the Board of Directors provided the Company with a promissory note in the amount of $40,000. Monthly interest is to be paid at 2% of the outstanding balance. During the year 2011 principal and interest payments were made totaling $60,953 bringing the balance to $Nil (2010 - $58,070) (Note 21). The promissory note was paid full during 2011.

During 2011, the Company expensed $34,000 (2010 - $20,500) as compensation to non-management directors within general and administrative expenses in the statement of operations. The 2011 expense was paid in full in 2011 ($20,500 paid in 2010).

During fiscal 2011, the Company obtained legal services at a cost of $6,027 (2010 - $2,320) from a law firm in which one of the Company's directors is a principal. At December 31, 2010, $4,500 had been paid (2010 - $2,320 paid) and $1,527 remained outstanding (2010 - $Nil).

During fiscal 2011, the Company obtained consulting services at a cost of $Nil (2010 - $4,400) from a firm in which one of the Company's directors is a principal. At December 31, 2010, $3,600 had been paid and $800 remained outstanding. The remaining amount was paid in full during 2011.

The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

31. FINANCIAL INSTRUMENTS

The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

Financial assets:	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Loans and receivables			
Cash	$ 201,104	$ 45,140	$ 14,239
Trade and other receivables	$ 2,341,884	$ 1,310,707	$ 1,310,957
Total financial assets	$ 2,542,988	$ 1,355,847	$ 1,325,196
Financial liabilities:			
Other financial liabilities			
Bank indebtedness	$ -	$ -	$ 496,261
Trade and other liabilities	$ 907,569	$ 378,134	$ 593,624
Long-term debt	$ 848,535	$ 595,458	$ 714,348
Due to related parties	$ -	$ 40,000	$ 40,000
	$ 1,756,104	$ 1,013,592	$ 1,844,233
Liabilities at fair value through profit or loss			
Derivative	$ -	$ 146,367	$ 49,258
Contingent consideration	$ 247,390	$ -	$ -
	$ 247,390	$ 146,367	$ 49,258
Total financial liabilities	$ 2,003,494	$ 1,159,959	$ 1,893,491

The carrying values of cash, trade and other receivables, bank indebtedness, trade and other liabilities and finance lease obligations approximate their fair values due to their relatively short periods to maturity. The derivative and contingent consideration are presented at fair value. The carrying value of due to related parties approximates its fair value. The fair value of the long-term debt approximates the carrying value as the risk profile of the Company has not changed significantly since those loans were negotiated and the borrowing terms and conditions continue to reflect current market conditions.

The fair value of the derivative is arrived at by the use of a Monte Carlo simulation that estimates the ultimate settlement of the debt based on the Company's stock price, number of shares outstanding and time to maturity at the date of fair valuing and the following assumptions:

	December 31, 2011	December 31,2010	January 1, 2010
Volatility	-	129%	99.6%
Interest rate	-	1.3%	1.3%

The fair value of the contingent consideration was determined based on the estimated revenues to be earned from the acquired customers, using a probability-weighting method. The resulting contingent consideration has been present value based on the resulting cash flows. This reflects management's estimate of the royalty payment which has been discounted using an interest rate of 18%.

The following table presents the Company's financial instruments measured at fair value in the statement of financial position in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative	$ -	$ -	$ -	$ -	$ 146,367	$ -	$ -	$ 49,258	$ -
Contingent consideration	$ -	$ -	$ 247,390	$ -	$ -	$ -	$ -	$ -	$ -

There has been no change to classification during the years presented.

Level 3 fair value measurements

Contingent consideration classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instrument within this level can be reconciled from the beginning to ending balances as follows:

	December 31, 2011	**December 21, 2010**
Opening balance	**$ -**	**$ -**
Business combination	**241,376**	
Payments made	**(137,948)**	
Loss recognized in net earnings	**43,962**	
Closing balance	**$247,390**	

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in net earnings or total liabilities.

32. FINANCIAL RISK MANAGEMENT

The Company has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Audit Committee which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls, sound business practices and on occasion derivative financial instruments.

The Company's financial instruments and the nature of the risks which they may be subject to are set out in the following table.

	Risks			
			Market	
	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash	Yes		Yes	Yes
Trade and other receivables	Yes		Yes	
Trade and other liabilities		Yes	Yes	
Bank indebtedness		Yes	Yes	Yes
Long-term debt and finance lease obligations		Yes	Yes	Yes
Contingent consideration		Yes	Yes	
Due to related parties		Yes		Yes
Derivative financial instruments		Yes		

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, and others from outstanding trade and other receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. .

Cash

Cash consists of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in Schedule 1 chartered Canadian banks.

Trade and other receivables

Trade and other receivables consists primarily of trade receivable (Note 14) from billings of consulting, custom development, system use and license fees as well as other receivables. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

This risk is mitigated through established credit management techniques, including monitoring counterparty's creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits. The carrying amount of trade and other receivables are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of operations in general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable.

Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the statement of operations. A significant portion of the Company's sales were to a limited number of customers (Note 7) and consequently the Company is exposed to a concentration of credit risk. The Company's exposure to individual customers is limited with the ten largest customers as at December 30, 2011, on aggregate, accounting for 66% of the Company's total accounts receivable balance (2010 – 71%). Of the top ten, two are in the automotive industry and make up 17% of the total net receivables (2010 – 29%). Historically trade credit losses have been minimal.

The Company does not have any allowance for doubtful accounts as at December 31, 2011 and 2010 and January 1, 2010. For details of the aging of the Company's trade receivables see Note 14.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows for all of its business units and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

The following table details the Company's contractual maturities for its financial liabilities, including interest payments as at December 31, 2011:

	Not later than one month	Later than one month and not later than three months	Later than 3 months and not later than one year	later than one year and not later than five years	Total
Trade and other liabilities	$ 907,569	$ -	$ -	$ -	$ 907,569
Long term debt	14,028	28,057	483,444	494,060	1,019,589
Contingent consideration	44,494	59,325	66,359	133,481	303,659
	$ 966,091	$ 87,382	$ 549,803	$ 627.541	$ 2,230,817

The following table details the Company's contractual maturities for its financial liabilities, including interest payments as at December 31, 2010:

	Not later than one month	Later than one month and not later than three months	Later than 3 months and not later than one year	later than one year and not later than five years	Total
Trade and other liabilities	$ 378,134	$ -	$ -	$ -	$ 378,134
Long term debt	14,528	137,982	50,944	470,436	673,890
Due to related parties	-	-	40,000	-	40,000
	$ 392,392	$ 137,982	$ 90,944	$ 470,436	$ 1,092,024

The following table details the Company's contractual maturities for its financial liabilities, including interest payments as at January 1, 2010:

	Not later than one month	Later than one month and not later than three months	Later than 3 months and not later than one year	later than one year and not later than five years	Total
Trade and other liabilities	$ 593,624	$ -	$ -	$ -	$ 593,624
Long term debt	18,591	37,147	124,274	710,044	890,056
Finance lease obligation	-	24,941	-	-	24,941
Due to related parties	-	-	-	40,000	40,000
	$ 618,450	$ 62,088	$ 130,510	$ 750,044	$ 1,561,092

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of a financial instrument or its future cash flows.

Foreign exchange

The Company operates in Canada and the United States.

As at December 31, 2011, the Canadian entities US-dollar net monetary assets totaled approximately US$835,028 (CDN$849,223)(December 31, 2010 US$345,676(CDN$351,552) – January 1, 2010 US$187,465(CDN$190,652)) and the Company's United States subsidiaries US-dollar monetary net assets totaled approximately US$(246,999) (CDN$251,198)(December 31, 2010 US$(425,360) (CDN$423,063) – January 1, 2010 US$(434,820)(CDN$456,996)).

A 10% strengthening in the Canadian dollar against the United States dollar as at December 31, 2011 would have decreased net earnings by $58,803 (December 31, 2010 a decrease of $7,925, January 1, 2010 a decrease of $25,997) (a 10% weakening would have had the equal but opposite effect). This analysis assumes that all other variables remain constant.

Interest rate

The Company has cash balances which are exposed to interest rate fluctuations. On December 31, 2011, cash totaled $201,104 (December 31, 2010 - $45,140 – January 1, 2010 $14,239). Any increase of basis points in the market interest rate would have had a nominal effect on net earnings for the year ended December 31, 2011. The Company has debt obligations with fixed rates. Any future refinancing at higher rates would have an adverse effect on the Company's performance. The Company also has loans with variable rates which are exposed to interest rate fluctuations. A 1% variation would have an approximate $632 effect as at December 31, 2011 on net earnings (December 31, 2010 - $6,500 – January 1, 2010 - $7,500).

33. CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity, its bank indebtedness, long-term debt (including current portion), net of cash as its capital. Covenants for this loan include current ratio and term debt to equity ratios. The Company was in compliance with these covenants throughout 2011. The Company was in breach as of January 1, 2010 of its covenants, however, during fiscal year 2010 and as at December 31, 2010, the Company was compliant with these covenants.

The Company also has certain positive covenants that it must meet with a Schedule 1 chartered Canadian bank in regards to its bank indebtedness, namely, a current ratio of at least 1.05:1, tangible net worth of at least $700,000 and total liabilities to tangible net worth ratio of not more than 2.0. As at December 31, 2011, the Company is compliant with all its covenants. On January 1, 2010 the Company was in breach of its current ratio and tangible net worth ratios. By December 31, 2010 the Company was compliant with all its covenants.

	December, 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness	**$ -**	$ -	$ 496,261
Long-term debt, including current portion	**848,535**	595,458	714,348
	848,535	595,458	1,210,609
Less cash	**201,104**	45,140	14,239
Net debt	**647,431**	550,318	1,196,370
Shareholders' equity	**2,212,302**	1,020,728	250,613
Total capital, net	**$ 2,859,733**	$ 1,571,046	$ 1,446,983
Net debt as a percentage of total capital	**23%**	35.0%	83.0%

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Board of Directors promotes year over year revenue increases with positive increases in earnings before interest, tax and amortization. These objectives are met through operational changes to enhance cash flow performance, the evaluation of acquisitions as they relate to the Company's market share and performance, and risk mitigation over exposure.

The Company is not subject to any statutory capital requirements and has no commitments, other than options, to sell or otherwise issue common shares.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2011 compared to the year ended December 31, 2010 or at January 1, 2010. The Company was successful in meeting its objectives.

34. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Effective January 1, 2011, the Company's consolidated financial statements are prepared in accordance with IFRS. The Company's IFRS accounting policies presented in Note 4 have been applied in preparing the financial statements for the year ended December 31, 2011 with comparative information for 2010 restated. The Company has prepared its

opening IFRS statement of financial position fully retrospectively at January 1, 2010, except when exemption and exceptions were applied as explained below.

Prior to adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the year ending December 31, 2011 are the first annual consolidated financial statements that comply with IFRS.

Initial elections upon adoption - set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options:

(1) Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date or another selected date of a business acquisition that occurred prior to the transition. The Company elected to apply IFRS 3 prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

(2) Cumulative Foreign Currency Translation Differences – IFRS 1 provides the option to eliminate the cumulative foreign currency translation differences through the opening deficit. The Company elected to eliminate the $757 cumulated other comprehensive loss at January 1, 2010 through the deficit.

(3) Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

All other optional exemptions in IFRS 1 were either not applicable because there were no significant differences in Management's application of Canadian GAAP in these areas or were not taken.

IFRS Mandatory Exceptions:

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Financial assets and liabilities that were derecognized before January 1, 2010 under Canadian GAAP have not been recognized under IFRS. The Company has applied the amendment to IFRS 1 with respect to the application of this exemption, at January 1, 2010.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive earnings and cash flows for prior periods. As a result of adopting IFRS, no adjustments were booked to the Statement of Cash Flows.

Equity at the date of transition of January 1, 2010, can be reconciled to the amounts reported under previous GAAP as follows:

	Pre-conversion Canadian GAAP balance	IFRS adjustments	IFRS balance January 1, 2010
Assets			
Current Assets			
Cash	$ 14,239		$ 14,239
Accounts receivable	1,311,553		1,311,553
Unbilled receivables	165,857		165,857
Investment tax credits receivable	7,928		7,928
Prepaid expenses and deposits	42,980		42,980
	1,542,557	-	1,542,557
Property and equipment	903,531		903,531
Goodwill	100,000		100,000
	$ 2,546,088	$ -	$ 2,546,088

	Pre-conversion Canadian GAAP balance	IFRS adjustments	IFRS balance
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness	$ 496,261		$ 496,261
Accounts payable and accrued liabilities	593,624		593,624
Deferred revenue	376,265		376,265
Current portion of long-term debt	114,967		114,967
Current portion of capital lease obligations	24,941		24,941
	1,606,058	-	1,606,058
Long-term debt	639,381		639,381
Deferred lease inducement	778		778
Derivative financial instrument	49,258		49,258
	2,295,475	-	2,295,475
Shareholders' equity			
Share capital	8,288,867		8,288,867
Contributed surplus	76,671	2,763	79,434
Deficit	(8,114,925)	(2,763)	(8,117,688)
	250,613	-	250,613
	$ 2,546,088	$ -	$ 2,546,088

Equity at December 31, 2010, can be reconciled to the amounts reported under previous GAAP as follows:

	Pre-conversion Canadian GAAP balance	IFRS adjustments	IFRS balance
Assets			
Current Assets			
Cash	$ 45,140		$ 45,140
Accounts receivable	1,314,997		1,314,997
Unbilled receivables	34,340		34,340
Investment tax credits receivable	15,449		15,449
Prepaid expenses and deposits	67,073		67,073
	1,476,999	-	1,476,999
Property and equipment	733,153		733,153
Goodwill	100,000		100,000
	$ 2,310,152	$ -	$ 2,310,152

	Pre-conversion Canadian GAAP balance	IFRS adjustments	IFRS balance
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank indebtedness	$ -		$ -
Accounts payable and accrued liabilities	378,134		378,134
Deferred revenue	129,465		129,465
Current portion of long-term debt	146,558		146,558
	654,157	-	654,157
Long-term debt	448,900		448,900
Due to related parties	40,000		40,000

Derivative financial instrument	146,367		146,367
	1,289,424	-	1,289,424
Shareholders' equity			
Share capital	8,302,716		8,302,716
Contributed surplus	96,245	(18,646)	77,599
Deficit	(7,378,233)	18,646	(7,359,587)
	1,020,728	-	1,020,728
	$ 2,310,152	$ -	$ 2,310,152

The following are explanations and reconciliations for those accounts affected during the transition from Canadian GAAP to IFRS:

Contributed surplus

	Note	Year ended December 31, 2010	As at January 1, 2010
Total Contributed surplus under Canadian GAAP		$ 96,245	$ 76,671
Adjustments for differing accounting treatments:			
Adjustments to stock-based compensation	(a)	(18,646)	2,763
Total contributed surplus under IFRS		$ 77,599	$ 79,434

Deficit

	Note	Year ended December 31, 2010	As at January 1, 2010
Total deficit under Canadian GAAP		$(7,378,233)	$(8,114,925)
Adjustments for differing accounting treatments:			
Adjustments to stock-based compensation	(a)	18,646	(2,763)
Total deficit under IFRS		$(7,359,587)	$(8,117,688)

Total comprehensive earnings (loss)

	Note	Year ended December 31, 2010
Net comprehensive earnings under Canadian GAAP		$ 736,692
Adjustments for differing accounting treatments:		
Adjustments to stock-based compensation	(a)	21,409
Total earnings under IFRS		$ 758,101

Shareholders' equity

	Note	Year ended December 31, 2010	As at January 1, 2010
Shareholders' equity under Canadian GAAP		$ 1,020,728	$ 250,613
Adjustments for differing accounting treatments:			
IFRS Adjustments		-	-
Shareholders' equity under IFRS		$ 1,020,728	$ 250,613

Notes to the IFRS reconciliation above:

(a) Adjustment on stock-based compensation

Recognition of expense

Under Canadian GAAP – Prior to 2010, the Company used the straight-line method of calculating vested options. The fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized over the vesting period. In 2011, the Company changed from the straight-line method to the graded-vesting model.

Under IFRS – Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

Forfeitures

Under Canadian GAAP – Forfeitures of awards were recognized as they occurred.

Under IFRS – Forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods.

This change resulted in an increase of $2,763 in both the deficit and contributed surplus at the transition date. For the year ended December 31, 2010, the change resulted in an $18,646 increase in total comprehensive earnings and a decrease of the same amount to contributed surplus within equity.

Presentation differences

Certain presentation differences between previous GAAP and IFRS have no impact on reported net earnings or total equity.

Some expenses have been reclassified into another line item under IFRS at the date of transition. Amortization was previously reported separately within the earnings from operating activities. To conform with the current presentation, amortization has been included in cost of services and goods sold and general and administrative (See Notes 8 &10).