IN-TOUCH
SURVEY SYSTEMS

2012 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 acquired Service Intelligence adding a wealth of experience as well as a respected customer base to its mystery shopping and audit business. The experience gained through this customer integration is helping to shape the future as we head in to 2013 with one acquisition (GCS Field Research) already completed.

Late in 2012 In-Touch launched EventMatrix as a superior technical product offering in the event marketing industry. Based on early feedback this is expected to be a very successful endeavor for the company.

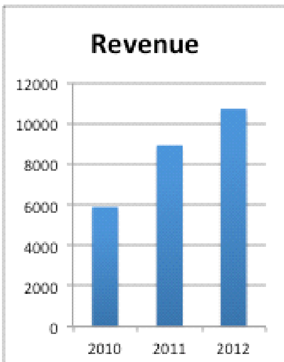
We are very proud of our customers and the benefits they derive from our products and services.

2012 Highlights:

- Revenues of $10,719,792
- Net earnings of $1,032,218
- Net earnings per share of $0.07

Dear Shareholders,

As a Company that has delivered three consecutive years of growth and profits, I am proud to announce that we have made significant progress in operational improvements and new Product Development in the past year. A major milestone was exceeding $10M in revenue for the first time in the Company's history. In-Touch's strategy is to grow from $11M in revenue to over $20M in revenue in 2015 with 15% organic growth and 25-50% growth through acquisition. There are three key pillars to our strategy – *Growth – New Product Development – Operations*. These pillars are the keys to improving shareholder value and improving liquidity.



Growth
Revenues > $20 million in the next 24 months from both organic growth and acquisitions. Become a leader in the mobile compliance, marketing automation and mobile CRM markets.

New Product Development
Continue designing, building and deploying event marketing automation solutions and mobile CRM solutions.

Operations
Improvement in the gross margin for each of the next two years for an incremental gain of $500k in EBITDA in 2016.

Growth

In-Touch's strategy is to grow from $11 million in revenue to more than $20 million in 2016 through a combination of *acquisitions and organic growth*. Revenues have increased 30% per annum since FY 2005. Combining new strategies for both organic growth and growth by acquisition and we would like to increase the compounded annual growth rate to 50% for the next three years to reach our $20 million revenue target.

Acquisitions

We made significant progress on the acquisition front with our April 1, 2013 announcement that we acquired the assets of GCS Field Research ("FR") from NAVEX Global. FR represents $2 million in new revenue along with almost $500k in new EBITDA. Q2 financials will start to show the benefits of the FR acquisition. FR adds valuable and new lines of on-site compliance services in the pharmaceutical, financial and educational markets. This transaction was completed for cash on April 2, 2013.

On April 19, 2013 In-Touch signed a Letter of Intent to acquire a Mystery Shopping company in Atlanta, Georgia. Assuming due diligence provides the required information there is a high probability that the parties will sign a definitive agreement with an effective date in June 2013. Additional annual revenues from this acquisition are estimated to be in the range of $2.5 million and growing. This transaction will be funded by a combination of debt, vendor take-back and In-Touch Common shares.

The combination of the FR acquisition and the Atlanta acquisition alone have the potential to increase revenues by close to $5 million annually beginning in Q2 and Q3 2013 and fully in 2014. We believe the market for small acquisitions in the $2-5 million range for companies in the Retail Performance business will remain strong for the next two years as older smaller firms begin to struggle with outdated technology.

Organic Growth

We sell into three major vertical markets; Event Marketing (EventMatrix – eventmatrix.com); Retail Performance/Compliance (Service Intelligence – serviceintelligence.com; GCS Field Research (gcsreasearch.com) and Government to Consumers (IPSG 'In-Touch Public Sector Group' – intouchpsg.com).

Our annual sales churn is approximately 10%. Our sales teams have been challenged to meet a target of 15% net growth year over year – effectively 25% of revenues from new customers after factoring in churn.

2012 revenues were affected by the loss of two large mystery-shopping customers due to cutbacks in their business. The acquisition of Service Intelligence ("SI") in August 2011 put a severe constraint on the sales process in 2011 and 2012. SI was in serious distress, as we expected, and required a significant investment of time and resources from sales, operations and our technology group to save almost 100% of their customers. Entering 2013 most of the SI operational problems have been solved and the company has freed up resources to focus on new customers and not just customer rescue.

By the summer of 2013 we will have refreshed all our websites and we recently hired a marketing specialist to enhance our marketing and social media strategies. Overall, the sound investments we have made and great work being done for all our customers positions us well for future growth.

Product Development

The mobile web technology space is volatile witnessed by the growth of Android based devices in 2012 compare to iOS devices in 2011 and even RIM before that. In-Touch embarked on an HTML5 strategy in 2008 - long before the mainstream market realized the importance of this new technology. Using HTML5 and other state of the art technologies we continue to build out our event marketing automation and mobile CRM technologies.

EventMatrix – Over the summer of 2012 we developed a go-to-market strategy for our EventMatrix technology and it was launched at EventTech in New York in November 2012. It is an event marketing automation solution and mobile CRM solution for large business to consumer companies. Chief Marketing Officers, Chief Information Officers and Vice President of large marketing agencies are the target customers for EventMatrix. In the first few months following the show the company secured two large contracts for EventMatrix.

MDCV2 – In the spring of 2012 MDCV2 was started to revamp our existing Mystery Shopping and Compliance web technologies. We intend to be a leader in the technology and services required to support mobile auditor and real-time reporting. This project should be completed in the summer of 2013 and will enhance our ability to grow and integrate new acquisitions as well as provide a significant point of differentiation to the prevailing technologies in the market.

Operations

Technology enabled services is the cornerstone of our business. We have over 50,000 auditors across North America in our database and by the end of the May we will be performing close to 30,000 audits per month. Our software development investment with the MDCV2 retail performance and audit system is critical to managing this distributed work force.

Since we entered the retail performance industry in 2006 operational effectiveness has been continuously refined through the use of best practices and technology. One of our key strategic goals is to improve our gross margin in each of the next two years.

The integration of acquisitions is becoming a core competence of In-Touch. Service Intelligence was seriously broken when we acquired it in 2011. Kudos to our operations team for the successful transition of SI onto In-Touch technology over the past 1.5 years.

Conclusion

In-Touch has had solid growth in sales and profits over the past three years. Our strategy of organic growth combined with growth from acquisition should maintain a greater than 30% compounded annual growth rate. Exceeding $20 million in annual revenues in the near future will go a long way to moving the company from being a micro-cap company to a small-cap company on the Toronto Venture Exchange. Size and growth rate are important fundamentals for investors, which normally provides companies, with these fundamentals, higher valuations and superior liquidity. Our three strategic pillars of; Growth, Product Development and Operations will support our overarching goal of providing significantly improved shareholder value and liquidity – in the near future.

Michael J. Gaffney
Chief Executive Officer

<u>In-Touch Survey Systems Ltd.</u>

<u>Dated: April 4, 2013</u>

<u>Management's Discussion and Analysis of Financial Conditions & Results of Operations</u>

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, 2012.

The accompanying audited consolidated financial statements have been prepared by and are the responsibility of In-Touch's management. The audited consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Dollar amounts are expressed in Canadian dollars unless otherwise noted.

<u>Forward-looking statements</u>

The following MD&A contains forward-looking statements. Except for statements of historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future 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.

<u>Overview Of the Business</u>

In-Touch Survey Systems Ltd. ("In-Touch") does business as In-Touch Insight Systems, Service Intelligence ("SI"), and In-Touch Public Sector Group ("IPSG").

In-Touch Insight Systems and Service Intelligence develop managed mobile software technology and services for private businesses, 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 comprehensive software platforms including In-Touch Apps, EventMatrix and Unified Insights that provide for the rapid development of data collection programs including mystery shopping programs, mobile forms creations and real-time online reporting for our customers. The Company's software technology is a hardware agnostic mobile web solution that operates on any device that runs a modern browser.

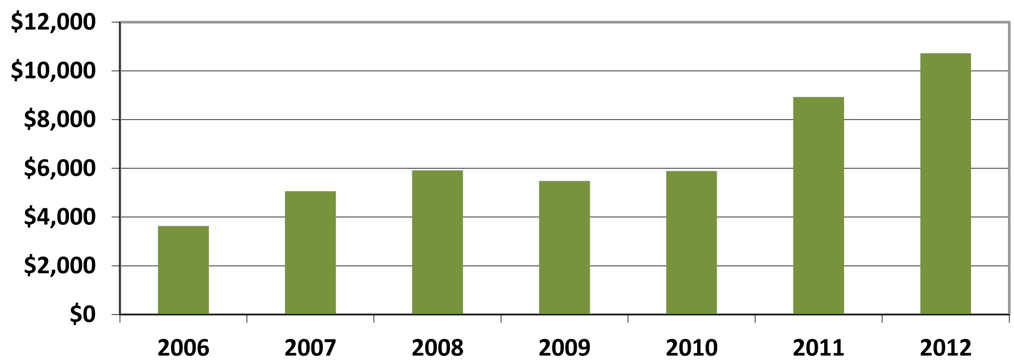
A second segment of the Company, the IPSG division provides enterprise software engineering services to the public sector. IPSG provides five service verticals for public sector customers, Mobile Strategy, Accounts Service, Web Presence Renewal, Client Scorecard and Consulting Services for business transformation. The Company expects significant growth in this division as the Federal Government searches for service transformation economies using modern web services and mobile solutions that the Company is currently developing or has already developed.

Revenues from data collected by In-Touch Apps are defined in the In-Touch financial statements as EDC, and government services revenues are defined as IMS.

<u>Highlights of 2012 Results</u>

a) Revenue

Figure 1: Yearly revenue (,000s)



The Company's 2012 revenues were $10,719,792, an increase of 20% from 2011 revenues of $8,930,735. Electronic data collection (EDC) services sales increased 8% from $7,628,800 in 2011 to $8,211,153 in 2012. In the previous year, the Company also reported a manual data collection (MDC) segment. During 2012 all services once considered manual were fully automated using similar technology as the electronic data collection segment. The distinction between EDC and MDC as electronic and manual is no longer defensible and therefore the Company combined these two segments. In 2011 the Company also reported a segment referred to as market research services (MKR). This segment was wound down in 2012 as no revenues were obtained with no foreseeable revenues in the future. As a result, expenses of approximately $20,000 were reclassified to unallocated corporate expenses. Revenue from Information Management Services (IMS), a division that began late in 2010, were $2,508,639 in 2012 compared to $1,301,935 in 2011. IMS revenues for 2013 are expected to be significantly lower for the first six months as some contracts have not been renewed and those that have been renewed are at lower rates than 2012.

Revenue generated from Canadian clients in 2012 represented $5,498,909 or 51% ($4,979,591 or 56% in 2011), while U.S. sales accounted for $5,220,883 or 49% of total 2012 sales ($3,951,144 or 44% for 2011). The Company successfully secured new contracts from its largest Canadian client, a major retailer that was acquired through an outsourcing agreement and business transfer agreement with GCS in August of 2011. Revenues from this client of $794,305 were realized during 2012 compared to $184,995 in 2011. For 2013, revenues from this client are expected to continue at the present levels or perhaps increase slightly. The Company also continued with many programs for its largest U.S. based client, an automobile manufacturer that first signed in late 2006. Revenues from this client of $1,645,229 were realized in 2012 compared to $1,401,876 in 2011. Revenues from this client are expected to continue throughout 2013 also at higher levels.

Included in 2012 revenues were approximately $3,816,000 from customers acquired through an outsourcing and business transfer agreement with GCS in August of 2011 (2011 - $1,773,000). Of this revenue approximately $2,528,000 or 66% (2011 - $1,126,000 or 64%) was generated from U.S. sales and $1,231,000 or 33% from Canadian sales (2011 - $647,000 or 36%). The Company has been successful in securing most of the SI customers for 2012 and expects revenues to continue at current levels throughout 2013, however, some customers remain on a month-to-month basis.

Management expects fluctuations in quarter-over-quarter operating results but continues to believe that revenues will continue to increase in 2013 based on internal growth and acquisitions.

Revenue recognition: The Company follows International Financial Reporting Standards (IFRS) in recognizing its revenue from operations. For further information on revenue recognition, refer to Note 2 in the audited consolidated financial statements dated December 31, 2012.

b) Cost of Services/Gross Margin

Consolidated cost of services sold increased 26% from $4,366,655 in 2011 to $5,510,707 in 2012. For 2012, EDC cost of services increased by $278,874 or 8%. IMS had cost of services of $1,682,229 for 2012 compared to $817,051 for 2011. EDC cost of services increased in direct relation to the increase in revenue. It is expected that 2013 EDC cost of services will again be at the same percentage to the EDC revenues as in 2012. IMS cost of services increased due to the significant growth of this segment during 2012. The Company is expecting lower costs in 2013 to reflect lower revenues as noted above.

Management identified many older kiosk and kiosk tablet assets that were no longer in use but were not fully depreciated. Since these assets were considered obsolete the Company disposed of these assets incurring a loss on disposal of $62,165 (2011 - $Nil).

Amortization associated to cost of services was $201,769 for 2012 compared to $258,564 for 2011, a 22% decrease due to the aging of the equipment used for data collection purposes.

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

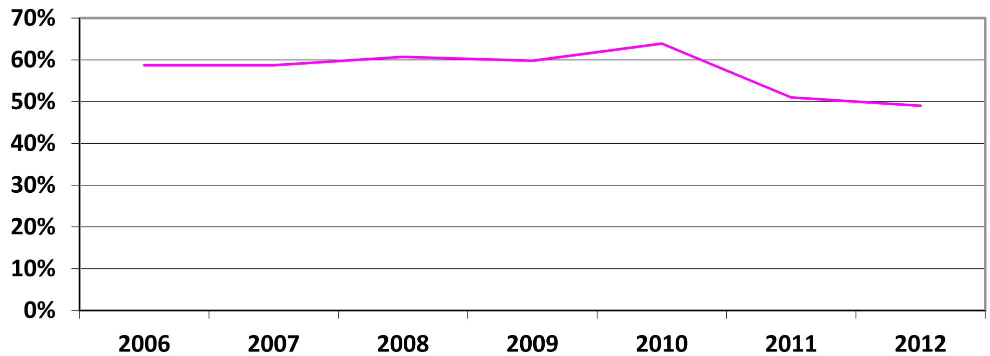
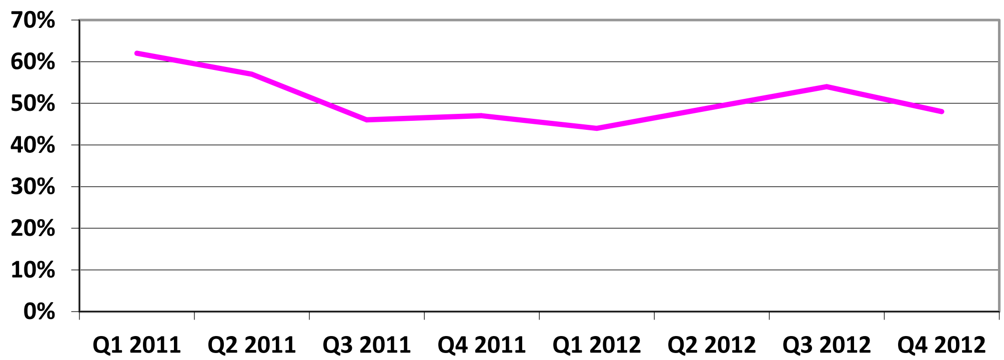


Figure 3: Quarterly gross margin as a percentage of sales

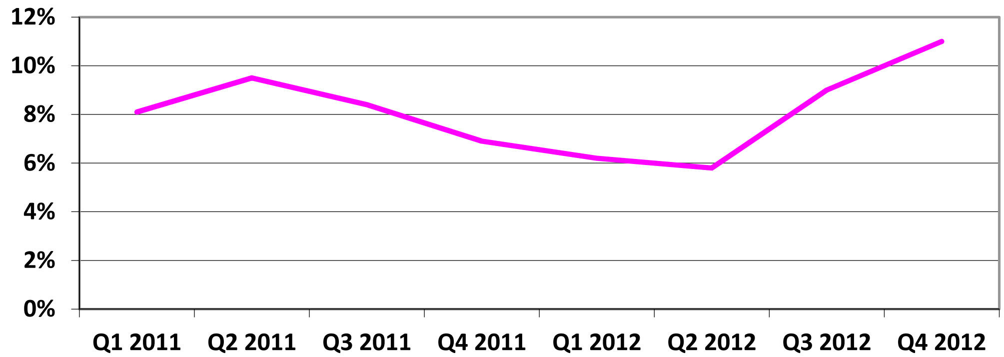


The consolidated gross margin increased by $645,005 or 14% to $5,209,085 in 2012 from $4,564,080 in 2011 however the margin percentage of 49% in 2012 is slightly lower than that of 51% in 2011. The increased costs were a direct result of the SI integration to the In-Touch systems. The gross margin percentage of 49% obtained during 2012 is lower than Management's expectations of 55 to 60%. Management expects gross margin percentage to meet expectations for 2013.

c) Selling

Selling expenses increased by 14% from $720,154 in 2011 to $821,020 in 2012. Marketing initiatives undertaken during the year resulted in expenses increasing by $19,147 or 11% from $174,688 in 2011 to $193,835 in 2012. Travel expenses during the year 2012 increased by $15,311 from $149,784 in 2011 to $165,095 in 2012. Salaries and benefits increased by $66,408 or 17% from $395,682 in 2011 to $462,090 in 2012. Selling salaries and benefits were higher as a result of the full effect of new hires made in 2011. Selling expenses are expected to continue at 2012 levels. The mix between marketing and travel may change. Management continues to watch the marketplace very closely and will aggressively seek new business opportunities.

Figure 4: Selling expenses as a percentage of sales



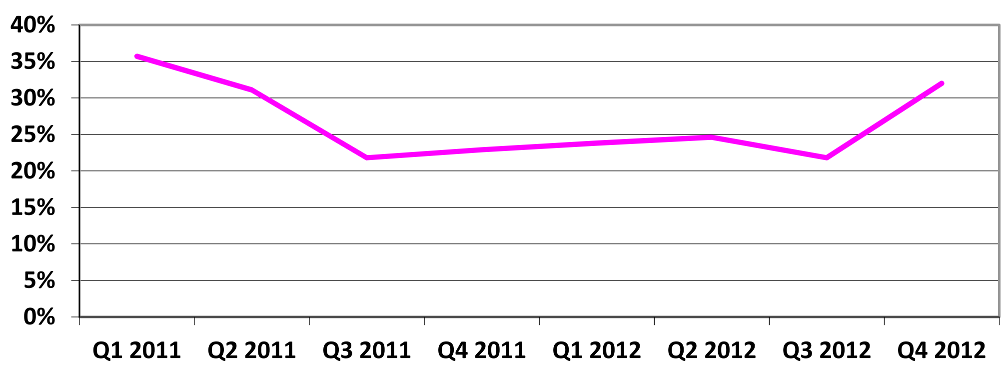
d) General and Administrative

General and administrative expenses increased by 15% or $361,808 from $2,345,577 in 2011 to $2,707,385 in 2012. The staffing levels increased General and Administrative expenses by $85,631 or 7% from $1,295,813 in 2011 to $1,381,444 in 2012. Included in salary expense are management bonuses that decreased by $51,599 from $160,187 in 2011 to $108,588 in 2012. Additional client service staff and new IMS staff contributed to the overall increase in salary expense. Professional fees increased by $91,873 from $90,212 in 2011 to $182,085 in 2012. A higher expense was incurred due to the Company preparing its consolidated financial statements in accordance with International Financial Reporting Standards. Listing expenses, those expenses related to operating a public company, decreased by $724 or 1% from $58,615 in 2011 to $57,891 in 2012. Corporate administration expenses increased $73,535 or 12% from $606,180 in 2011 to $679,715 in 2012. The Company recorded a loss on disposal of property and equipment of $1,061 in 2012 compared to a gain of $4,284 in 2011. Management expects General and Administrative expenses to remain stable for the next year. Share-based compensation added $90,510 in non-cash salary expense to the 2012 General and Administrative expense compared to $24,337 for 2011. Management anticipates that share-based compensation will increase slightly for 2013.

The Company recorded a loss on U.S. exchange of $42,097 in 2012 compared to a loss of $8,259 in 2011. Any future gains or losses will be dependent on the fluctuation of the Canadian dollar.

Amortization associated with general and administrative expenses was $150,291 for 2012 compared to $73,737 for 2011. Amortization of intangible assets of $90,659 was included in the $150,291 for 2012 as a result of the business acquisition.

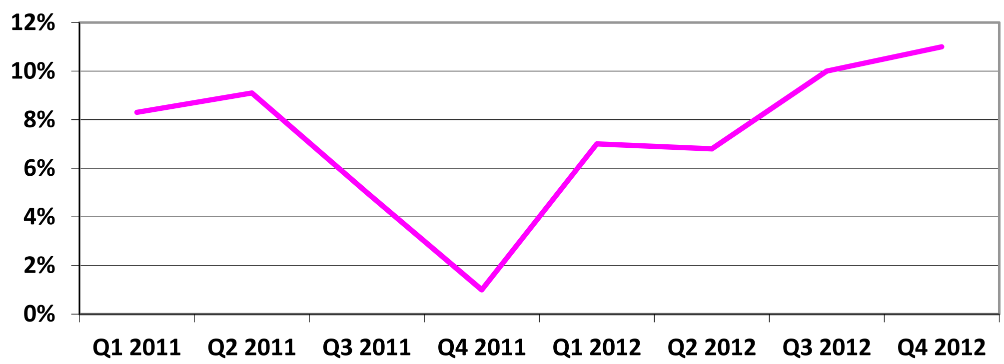
Figure 5: General and Administrative expenses as a percentage of sales



e) Product Development

Product development activities increased significantly from $438,608 in 2011 to $919,318 in 2012. Included in 2011 is an ITC recognition which reduced the 2011 expense by $176,139. Salaries increased 52% from $605,689 in 2011 to $919,318 in 2012. Product purchases for testing new data collection hardware were $Nil in 2012 compared to $9,058 in 2011. The Company continues to invest heavily in product development.

Figure 6: Product Development expenses as a percentage of sales



f) Earnings from operating activities

Earnings from operating activities in 2012 were $761,362 a decrease of $298,379 or 28% compared to earnings of $1,059,741 for 2011.

g) Non-operating earnings (expenses)

Finance costs for 2012 were $112,835. In 2011, finance costs were $68,555. Finance costs increased 65% compared to 2011 as a result of the conversion of the financial derivative into a new loan and another new loan in the amount of $250,000. The proceeds of the new loan were used in the repayment of a Business Development Bank of Canada (BDC) loan. The Company expects finance costs to remain stable in 2013.

The Company received proceeds of $550,000 in 2007 on the issuance of long-term debt to BDC. 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.

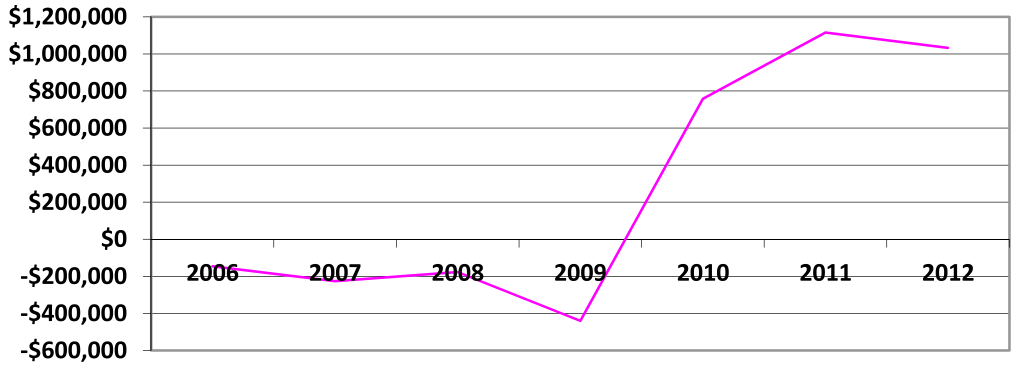
During the fourth quarter of 2011, the Company and BDC agreed to a final bonus payment amount of $398,243 based on a market capitalization of $4,978,043. The final bonus amount was converted to a four-year loan bearing interest at 13.5% repayable by monthly payments of $5,100 for 47 months and one final 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).

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, at December 31, 2011 and again at December 31, 2012. As a result the Company recorded a loss on fair value of contingent payments of $16,179 (2011 - $29,610). The contingent payments will be adjusted at each reporting period to fair value.

h) Income taxes

In 2012 recorded a deferred tax recovery of $407,950 (2011 - $419,104) because 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 all 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 expense of $8,080 for 2012 (2011 - $13,900).

Figure 7: Net earnings and other comprehensive earnings (in '000s)



i) Cash Flows

Operating, investing and financing activities in 2012 resulted in a net inflow of $293,438 compared to an inflow of $155,964 in 2011. General operations and results thereof generated cash of $1,372,056. Last year, in 2011, general operations generated cash of $758,086. In 2012 the Company issued shareholder loans to two directors in the amount of $368,179 (2011 - $Nil). The loans were issued to assist them to purchase all of the common shares of the Company held by their respective RRSP's due to recently enacted changes to the *Income Tax Act* (Canada). The shareholder loans will be repayable on December 10, 2013. In 2011 the Company invested $47,900 through the SI business combination discussed earlier. There was investment in property and equipment in 2012 of $201,168 compared to an investment for 2011 of $226,323. Proceeds from the sale of property and equipment in 2012 were $21,857 compared to proceeds of $11,437 in 2011. The Company issued no common shares in 2012 compared to $52,333 in 2011. The Company issued long-term debt in the amount of $250,000 in 2012 compared to $Nil in 2011. The outflow of cash from the repayment of long-term debt was $540,899 in 2012 compared to $145,166 in 2011. Finance costs paid during 2012 amounted to $101,305 compared to $68,555 in 2011. Payment of the contingent consideration amounted to $138,924 during 2012 (2011 - $137,948). The Company's usage of its line of credit at the end of 2012 and 2011 was $Nil.

j) Liquidity and Capital Resources

Working capital was $1,685,114 as at December 31, 2012 compared to $963,199 as at December 31, 2011. The bank operating line of credit was $Nil at December 31, 2012 and 2011. Long-term debt decreased from $848,535 at December 31, 2011 to $557,636 at December 31, 2012 of which $290,126 is the current portion ($456,368 at December 31, 2011). Deferred revenue decreased from $141,769 at December 31, 2011 to $21,830 at December 31, 2012. Trade and other liabilities decreased $474,546 from $907,569 at year-end 2011 to $433,023 as at December 31, 2012. Income tax payable amounted to $8,080 at December 2012 compared to $13,900 for 2011. The contingent consideration from the SI business combination was $120,273 at year-end 2012 compared to $247,390 at year-end 2011 of which $143,210 was the current portion.

Debt to equity decreased from 0.46 as at December 31, 2011 to 0.23 at December 31, 2012. 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 2013 suggest that revenues from the automotive industry client and the food retail industries will increase in total for 2013. IMS government services segment revenues are expected to be significantly lower for Q1 2013 but are expected to recover to 2012 levels. Overall, the Company expects revenues to increase for 2013 through organic growth and through possible acquisitions.

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							
	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$2,220**	**$2,763**	**$2,947**	**$2,790**	**$3,018**	**$2,762**	**$1,723**	**$1,428**
Cost of services and goods sold	1,166	1,285	1,490	1,570	1,585	1,495	748	539
Gross profit	1,054	1,478	1,457	1,220	1,433	1,267	975	889
Total operating expenses	1,174	1,140	1,078	1,056	941	970	794	799
Earnings from operating activities	**$(120)**	**$338**	**$379**	**$164**	**$492**	**$297**	**$181**	**$90**
Finance costs	(33)	(18)	(28)	(34)	(18)	(20)	(14)	(16)
Change in fair value of derivative	-	-	-	-	67	(80)	(46)	(45)
Loss on extinguishment of long-term debt	-	-	-	-	(148)	-	-	-
Change in fair value of contingent payments	(16)	(1)	1	-	(30)	-	-	-
Net earnings before taxes	**$(169)**	**$319**	**$352**	**$130**	**$363**	**$197**	**$121**	**$29**
Calculation of EBITDA earnings from operations								
To net earnings add:								
Finance costs	33	18	28	34	18	20	14	16
Amortization	37	77	73	74	80	72	71	68
Amortization of intangible asset	16	20	27	28	41	-	-	-
Change in fair value of derivative	-	-	-	-	(67)	80	46	45
Loss on extinguishment of long-term debt	-	-	-	-	148	-	-	-
Stock-based compensation	32	33	13	13	11	7	3	3
Change in fair value of contingent consideration	16	-1	1	-	30	-	-	-
Adjusted EBITDA[1]	**$(35)**	**$468**	**$492**	**$279**	**$624**	**$376**	**$255**	**$161**

[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 prospective client pipeline and increased engagement from the existing customer base, Management once again anticipates year over year revenue growth in FY 2013.. The Company has an aggressive sales growth target from organic growth and expects additional growth from acquisitions. As of the first week of April 2013 the Company has already achieved bookings that exceed 2012 revenues.. 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 customers. 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 technologies and its ability to manage multiple, concurrent, and geographically disperse data collection programs. The Company's software platforms are a cornerstone core competency of the firm. These software technologies provide customers with powerful and robust platforms. In-Touch will continue to invest in technology with the products becoming more of Software as a Service ("SaaS") as each new release is implemented.

Margins decreased to 49% in 2012 mainly due to the integration of the Service Intelligence ("SI") customers and lower revenues in Q4 with the loss of two major customers due to financial constraints by those customers. Margins are expected to increase in 2013 with the addition of new customers.

The company significantly increased expenses in Marketing and Product Development in 2012 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.

Estimates

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. 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.

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Judgments

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 in the consolidated financial statements Note 2(i).

Assessing the probability of utilizing deferred tax assets and investment tax credits

Deferred tax assets and investment tax credits 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 the consolidated financial statements 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.

Impairment

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

b) Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). On April 4, 2013 the Company's Board of Directors approved these consolidated financial statements and authorized them for issue.

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, 2012 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, 2012 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, long-term debt (including current portion), net of cash and cash equivalents as its capital.

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 tangible net worth of at least $1,000,000. Throughout 2012 and as at December 31, 2012 the Company is compliant with all its covenants.

	As at December 31, 2012	As at December 31, 2011
Long-term debt, including current portion	$ 557,636	$ 848,535
	$ 557,636	$ 848,535
Less cash and cash equivalents	$ 494,542	$ 201,104
Net debt	$ 63,094	$ 647,431
Shareholders' equity	$ 3,235,030	$ 2,212,302
Total capital, net	$ 3,298,124	$ 2,859,733
Net debt as a percentage of total capital	2%	23%

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 Company targets 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.

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, 2012 compared to the year ended December 31, 2011. 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, 2012	As at December 31, 2011
Financial assets:		
Loans and receivables		
Cash and cash equivalents	$ 494,542	$ 201,104
Trade accounts receivables	$ 1,520,805	$ 2,341,884
Shareholder loans receivable	$ 368,179	$ -
Total financial assets	$ 2,383,526	$ 2,542,988
Financial liabilities:		
Other financial liabilities		
Trade and other liabilities	$ 433,023	$ 907,569
Long-term debt	$ 557,636	$ 848,535
	$ 990,659	$ 1,756,104
Liabilities at fair value through profit or loss		
Contingent consideration	$ 120,273	$ 247,390
	$ 120,273	$ 247,390
Total financial liabilities	$ 1,110,932	$ 2,003,494

The carrying values of cash and cash equivalents, trade accounts receivables, shareholder loan receivables and trade and other liabilities approximate their fair values due to their relatively short periods to maturity. The contingent consideration is presented at 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 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:

	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Contingent consideration	$ -	$ -	$ 120,273	$ -	$ -	$ 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, 2012	**December 31, 2011**
Opening balance	**$247,390**	$ -
Business combination	**-**	341,376
Payments made	**(138,924)**	(137,948)
Loss recognized in net earnings	**11,807**	43,962
Closing balance	**$120,273**	$247,390

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

CORRECTION OF PRIOR PERIOD ERROR

When transitioning to IFRS the Company incorrectly applied the IFRS 1 exemption option related to a business combination which previously under Canadian GAAP met the definition of a business acquisition. The Company has determined that the transaction would not meet the criteria of a business combination under IFRS and the transaction should have been accounted for as an asset acquisition on transition to IFRS. As a result the Company has reduced goodwill by $100,000 and increased opening deficit by $100,000 as at December 31, 2011 and January 1, 2011.

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, 2012 there were no common shares issued (2011 - 523,333 common shares resulting from the exercise of stock options). At December 31, 2012 there were 14,226,312 common shares outstanding. As of the date of this Management Discussion and Analysis, there were 14,904,645 common shares outstanding as 678,333 common shares were issued as a result from the exercise of stock options in 2013.

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 totalling $60,953 bringing the balance to $Nil. The promissory note was paid full during 2011.

During fiscal 2012, the Company obtained legal services at a cost of $4,250 (2011 - $6,027) from a law firm in which one of the Company's directors is a principal. At December 31, 2012, $4,250 had been paid (2011 - $4,500 paid) and $Nil remained outstanding (2011 - $1,527).

On December 11, 2012, the Company made a loan in the amount of $193,725 to its Chief Executive Officer and a Director, and a loan in the amount of $173,800 to a director to assist them to purchase all of the common shares of the Company held by their respective RRSPs due to recently enacted changes to the *Income Tax Act* (Canada). The shareholder loans will be repayable on December 10, 2013, and will bear interest at the rate of 3% per annum. The loans are secured by a pledge of the shares purchased from their RRSPs. Interest receivable on these loans of $654 was accrued as at December 31, 2012.

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

SUBSEQUENT EVENT

On April 1, 2013, the Company acquired the Field Research ("FR") division of NAVEX Global Inc. FR provides overt and covert on-site evaluations and inspections, primarily in the United States with some audits in Canada, to gauge compliance with legislation, regulations and organizational policies and procedures. The purchase amount for the FR division was $1,000,000. The Field Research division had revenues of $2,202,998 in 2012.

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 2012 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, 2012 and 2011

(Expressed in Canadian Dollars)

In-Touch Survey Systems Ltd.
Consolidated Financial Statements
December 31, 2012 and 2011

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 4, 2013

Michael Gaffney	George Pretli
Chief Executive Officer	acting Chief Financial Officer

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
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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, 2012 and 2011 and January 1, 2011 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, 2012 and 2011, 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, 2012 and 2011 and January 1, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
April 4, 2013

In-Touch Survey Systems Ltd.

Consolidated Statements of Earnings and Comprehensive Income

years ended December 31, 2012 and 2011
(in Canadian Dollars)

	Note	2012	2011
Revenue		$ 10,719,792	$ 8,930,735
Cost of services	7	5,510,707	4,366,655
		5,209,085	4,564,080
Expenses			
Selling	8	821,020	720,154
General and administrative	9	2,707,385	2,345,577
Product development	10	919,318	438,608
		4,447,723	3,504,339
Earnings from operating activities		761,362	1,059,741
Non-operating earnings (expense)			
Finance costs	26	(112,835)	(68,555)
Loss on extinguishment of long-term debt	19	-	(147,748)
Loss on fair value of derivative	19	-	(104,128)
Loss on fair value of contingent consideration	5	(16,179)	(29,610)
Net earnings before income taxes		632,348	709,700
Income taxes	27		
Deferred tax recovery		407,950	419,104
Current income tax		(8,080)	(13,900)
Net earnings and comprehensive income		$ 1,032,218	$ 1,114,904
Net earnings per share	11		
Basic		$ 0.07	$ 0.08
Diluted		$ 0.07	$ 0.08

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, 2012 and 2011 and January 1, 2011

(in Canadian Dollars)

	Note	December 31, 2012	December 31, 2011	January 1, 2011
Assets				
Current Assets				
Cash and cash equivalents	13	$ 494,542	$ 201,104	$ 45,140
Trade and other receivables	14	1,636,736	2,381,101	1,349,337
Investment tax credits recoverable		-	-	15,449
Shareholder loans receivable	30	368,179	-	-
Prepaid expenses and deposits		58,989	43,810	67,073
		2,558,446	2,626,015	1,476,999
Property and equipment	15	515,515	660,830	733,153
Deferred tax assets	27	806,480	398,530	-
Investment tax credit recoverable	27	176,139	176,139	-
Intangible assets	16	319,292	409,951	-
		$ 4,375,872	$ 4,271,465	$ 2,210,152
Liabilities and Shareholders' Equity				
Current Liabilities				
Trade and other liabilities	18	$ 433,023	$ 907,569	$ 378,134
Income taxes payable	27	8,080	13,900	-
Deferred revenue	14	21,830	141,769	129,465
Current portion of long-term debt	20	290,126	456,368	146,558
Current portion of contingent consideration	5	120,273	143,210	-
		873,332	1,662,816	654,157
Long-term debt	20	267,510	392,167	448,900
Due to related parties	29	-	-	40,000
Contingent consideration	5	-	104,180	-
Derivative financial instrument		-	-	146,367
		1,140,842	2,159,163	1,289,424
Shareholders' Equity				
Share capital	22	8,395,401	8,395,401	8,302,716
Contributed surplus	23	152,094	61,584	77,599
Deficit		(5,312,465)	(6,344,683)	(7,459,587)
		3,235,030	2,112,302	920,728
		$ 4,375,872	$ 4,271,465	$ 2,210,152

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, 2012 and 2011
(in Canadian Dollars)

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance as at January 1, 2011	22	13,702,979	$ 8,302,716	$ 77,599	$ (7,359,587)	$ 1,020,728
Restatement	33				(100,000)	(100,000)
Balance as at January 1, 2011 (Restated)		13,702,979	8,302,716	77,599	(7,459,587)	920,728
Issuance of share capital related to the exercise of share options	22	523,333	52,333	-	-	52,333
Share-based compensation	23	-	-	24,337	-	24,337
Fair value of exercised share options		-	40,352	(40,352)	-	-
Transactions with owners		14,226,312	8,395,401	61,584	(7,459,587)	997,398
Net earnings and comprehensive income		-	-	-	1,114,904	1,114,904
Balance as at December 31, 2011	22	14,226,312	8,395,401	61,584	(6,344,683)	2,112,302
Share-based compensation	23			90,510		90,510
Transactions with owners		-	-	90,510	-	90,510
Net earnings and comprehensive income		-	-	-	1,032,218	1,032,218
Balance as at December 31, 2012		14,226,312	8,395,401	152,094	(5,312,465)	3,235,030

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, 2012 and 2011
(in Canadian Dollars)

	Note	2012	2011
CASH PROVIDED BY (USED IN):			
Operating activities			
Net earnings		$ 1,032,218	$ 1,114,904
Adjustments to net earnings:			
Amortization of property and equipment	15	261,401	291,493
Amortization of intangible asset	16	90,659	41,346
Finance costs	26	112,835	68,555
Loss on extinguishment of long-term debt	19	-	147,748
Loss on fair value of derivative	19	-	104,128
Change in fair value of contingent consideration	5	16,179	29,610
Loss (gain) on foreign exchange related to contingent consideration and deferred cash payment		(4,372)	16,905
Share-based compensation	23	90,510	24,337
Loss (gain) on disposal of property and equipment		63,225	(4,284)
Deferred tax recovery	27	(407,950)	(419,104)
Investment tax credit recoverable		-	(176,139)
Net change in non-cash operating working capital	25	117,351	(481,413)
Cash flows from operating activities		1,372,056	758,086
Financing activities			
Issuance of long-term debt	17	250,000	-
Issuance of share capital	22	-	52,333
Repayment of due to related parties	29	-	(40,000)
Repayment of long-term debt	20	(540,899)	(145,166)
Finance costs paid		(101,305)	(68,555)
Payment of contingent consideration	5	(138,924)	(137,948)
Cash flows from financing activities		(531,128)	(339,336)
Investing activities			
Business combination	4	-	(47,900)
Shareholder loans receivable	29	(368,179)	-
Proceeds on disposal of property and equipment	15	21,857	11,437
Purchase of property and equipment	15	(201,168)	(226,323)
Cash flows from investing activities		(547,490)	(262,786)
NET CASH INFLOW		293,438	155,964
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		201,104	45,140
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 494,542	$ 201,104
Additional Information			
Interest received included in operating activities		1,389	-
Income tax paid included in operating activities		12,446	-

1. CORPORATE INFORMATION

In-Touch Survey Systems Ltd. ("In-Touch") 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 ("Company") 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used throughout all periods presented in the financial statements.

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS). On April 4, 2012 the Company's Board of Directors approved these consolidated financial statements and authorized them for issue.

(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 2.

(c) Basis of consolidation

The consolidated financial statements include the accounts of In-Touch Survey Systems Ltd., the ultimate parent, 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.

(d) 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.

(e) Business combinations

Business combinations 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.

(f) 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 4). 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.

(g) Impairment testing of intangible assets and property and equipment

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 assets or CGU’s recoverable amount is estimated.

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.

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 to reduce the carrying amounts of assets in the CGU on a pro rata basis.

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.

There have been no impairment losses recognized in any of the periods presented.

(h) 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 two segments, which are the service lines of the Company: electronic data collection (“EDC”), 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.

(i) Revenue recognition

The Company receives revenue from various service offerings.

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.

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

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.

(j) 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, 2012 and 2011.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) 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.

(m) 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	5 years	Straight-line
Kiosks	20%	Declining balance
Kiosk tablets	3 – 5 years	Straight-line
Furniture and equipment	10 years	Straight-line

In-Touch Survey Systems Ltd. reviewed the estimated lives of certain assets. As a result, the Company revised the estimated remaining useful life of certain assets to more accurately reflect the period over which they provide economic benefits. The Company adjusted its amortization rates for computer equipment from 30% declining balance to 5 years straight-line and for furniture and equipment from 20% declining balance to 10 years straight-line. The Company accounted for these changes in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, which requires a change in accounting estimate to be applied prospectively from the date of the change based on timing of completion of the review. The consolidated statement of earnings and comprehensive income reflects an increase in depreciation of $3,292 for the year ended December 31, 2012, as a result of the changes in accounting estimate.

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.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified 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.

(o) 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).

(p) 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.

(q) Share-based compensation

The Company accounts for share-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 share 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.

(r) 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 recovery 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.

(s) 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.

Estimates

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 4 & 5). 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.

Share-based compensation

The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Judgments

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 2(i).

Assessing the probability of utilizing deferred tax assets and investment tax credits

Deferred tax assets and investment tax credits 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 4.

Impairment

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2(g)).

(t) 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 and cash equivalents	Loans and receivables
Trade accounts receivables	Loans and receivables
Shareholder loans receivable	Loans and receivables
Trade and other liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Derivative financial instrument	Fair value through profit or loss
Contingent consideration	Fair value through profit or loss

All financial assets except for those at fair value through profit or loss (FVTPL) are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs except for impairment of trade receivables which is presented within general and administrative expenses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at FVTPL include financial assets and liabilities that are either classified as held for trading or that meet certain conditions and are designated at FVTPL 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 non-operating 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 non-derivative 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.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

<u>Other financial liabilities</u>

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

<u>Hierarchy of Financial Instruments</u>

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.

(u) 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 earnings.

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company (except for the amendments to IAS 1).

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

a) Early adopted

In May 2012, the IASB issued amendments to IAS 1 'Presentation of Financial Statements'. These amendments clarify the appropriate date for the opening statements of financial position and address comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8. These amendments are effective for annual periods beginning on or after July 1, 2013, with earlier adoption permitted. The Company has elected to early adopt these amendments as of January 1, 2012. Accordingly, the disclosures required by these amendments have been incorporated into the Company's consolidated financial statements.

b) Not yet adopted

<u>IFRS 9 'Financial Instruments' (IFRS 9):</u>

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed.

(in Canadian Dollars)

Further, in November 2012, the IASB published an exposure draft in order to make limited modifications to IFRS 9's financial asset classification model to address application issues. The Company's management have yet to assess the impact of this new standard on the Company's consolidated financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

<u>IFRS 13 'Fair Value Measurement' (IFRS 13):</u>

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Company's consolidated financial statements.

4. 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 providing data collection, 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 paid over the first two quarters of 2012. The Company made payments related to contingent consideration of ten percent royalty 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, 2012, the acquired business added revenues of $3,815,770. 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.

(in Canadian Dollars)

5. CONTINGENT CONSIDERATION

The following table summarizes information about contingent consideration (See Note 4):

	As at December 31, 2012	As at December 31, 2011
Contingent consideration due to GCS in the form of royalty payments based on future revenue (see Note 4), opening	$ 247,390	$ 341,376
Paid during the year	$ (138,924)	$ (137,948)
Loss on fair value	$ 16,179	$ 29,610
Loss (gain) on foreign exchange	$ (4,372)	$ 14,352
Contingent consideration	$ 120,273	$ 247,390
Less current portion	$ (120,273)	$ (143,210)
Long-term portion	$ -	$ 104,180

6. 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 various data collection methodologies are defined in the In-Touch financial statements as electronic data collection ("EDC") 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, 2012	**EDC**	**IMS**	**Total Segments**	**Unallocated corporate expenses**	**Total**
Revenue from external customers	$ 8,211,153	$ 2,508,639	$ 10,719,792	$ -	$ 10,719,792
Cost of services	$ 3,828,478	$ 1,682,229	$ 5,510,707	$ -	$ 5,510,707
Gross margin	$ 4,382,675	$ 826,410	$ 5,209,085	$ -	$ 5,209,085
Expenses	$ (4,015,161)	$ (255,219)	$ (4,270,380)	$ (177,343)	$ (4,447,723)
Finance costs	$ (103,668)	$ -	$ (103,668)	$ (9,167)	$ (112,835)
Loss on fair value of contingent consideration	$ (16,179)	$ -	$ (16,179)	$ -	$ (16,179)
Net earnings (loss) before income taxes	$ 247,667	$ 571,191	$ 818,858	$ (186,510)	$ 632,348
Property and equipment additions	$ 201,168	$ -	$ 201,168	$ -	$ 201,168

(in Canadian Dollars)

For the year ending December 31, 2011	**EDC**	**IMS**	**Total Segments**	**Unallocated corporate expenses**	**Total**
Revenue from external customers	$ 7,628,800	$ 1,301,935	$ 8,930,735	$ -	$ 8,930,735
Cost of services	$ 3,549,604	$ 817,051	$ 4,366,655	$ -	$ 4,366,655
Gross margin	$ 4,079,196	$ 484,884	$ 4,564,080	$ -	$ 4,564,080
Expenses	$ (3,244,951)	$ (162,222)	$ (3,407,173)	$ (97,166)	$ (3,504,339)
Finance costs	$ (68,555)	$ -	$ (68,555)	$ -	$ (68,555)
Loss on extinguishment of long-term debt	$ (147,748)	$ -	$ (147,748)	$ -	$ (147,748)
Loss on fair value of derivative	$ (104,128)	$ -	$ (104,128)		$ (104,128)
Loss on fair value of contingent consideration	$ (29,610)	$ -	$ (29,610)	$ -	$ (29,610)
Net earnings (loss) before income taxes	$ 484,204	$ 322,662	$ 806,866	$ (97,166)	$ 709,700
Intangible assets acquired	$ 451,297	$ -	$ 451,297	$ -	$ 451,297
Property and equipment additions	$ 226,323	$ -	$ 226,323	$ -	$ 226,323

Geographical

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

	2012	2011
Canada	$ 5,498,909	$ 4,979,591
US	$ 5,220,883	$ 3,951,144
Total revenue	$ 10,719,792	$ 8,930,735

Major customers

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

	Reporting segment	2012	2011
Customer 1	IMS	$ 2,505,139	$ 1,235,707
Customer 2	EDC	$ 1,645,229	$ 1,401,876
Customer 3	EDC	$ -	$ 1,281,309
Total dollars		$ 4,150,368	$ 3,918,892

Major trade receivables

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

	Reporting segment	2012	2011
Customer 1	IMS	$ 300,185	$ 390,294
Customer 2	EDC	$ 260,558	$ 290,795
Customer 3	EDC	$ 218,122	$ -
Total dollars		$ 778,865	$ 681,089

(in Canadian Dollars)

7. COST OF SERVICES

During the year ended December 31, 2012 the Company recorded amortization expense of $201,769 (December 31, 2011 - $258,564) within cost of services. Salaries and benefits charged to cost of services was $1,220,554 in 2012 compared to $540,486 in 2011. Loss on disposal of kiosks and kiosk tablets charged to cost of services was $62,165 compared to $Nil in 2011.

8. SELLING EXPENSES

Selling expenses for the Company are broken down as follows:

	2012	2011
Marketing expenses	$ 193,835	$ 174,688
Travel expenses	$ 165,095	$ 149,784
Salaries and benefits	$ 462,090	$ 395,682
Selling expenses	$ 821,020	$ 720,154

9. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2012	2011
Corporate administration	$ 679,715	$ 606,180
Consultant fees	$ 212,801	$ 217,045
Professional fees	$ 182,085	$ 90,212
Listing fees	$ 57,891	$ 58,615
Salaries and benefits(1)	$ 1,381,444	$ 1,295,813
Loss (gain) on disposal of property and equipment	$ 1,061	$ (4,284)
Loss on foreign exchange	$ 42,097	$ 8,259
Amortization expense	$ 150,291	$ 73,737
General and administrative expenses	$ 2,707,385	$ 2,345,577

(1) Stock-based compensation (a non-cash item) of $90,510 (2011 - $24,337) has been included in Salaries and benefits

10. PRODUCT DEVELOPMENT

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

	2012	2011
Salaries and benefits	$ 919,318	$ 605,689
Product purchases	$ -	$ 9,058
ITC tax recognition	$ -	$ (176,139)
Product development expenses	$ 919,318	$ 438,608

11. EARNINGS PER SHARE

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

	2012	2011
Weighted average number of common shares - basic	14,226,312	14,028,257
Additions to reflect the dilutive effect of employee stock options	828,327	245,001
Weighted average number of common shares - diluted	15,054,639	14,273,258

(in Canadian Dollars)

12. EMPLOYEE REMUNERATION

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

	2012	2011
Salaries and benefits	$ 3,892,896	$ 2,813,333
Share-based compensation	$ 90,510	$ 24,337
Total salaries, benefits and share-based compensation	$ 3,983,406	$ 2,837,670

13. CASH AND CASH EQUIVALENTS

	2012	2011
Cash at bank	$ 94,542	$ 201,104
Short-term deposits	$ 400,000	$ -
Total cash and cash equivalents	$ 494,542	$ 201,104

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, 2012	As at December 31, 2011
Trade accounts receivable, gross	$ 1,520,805	$ 2,341,884
Allowance for doubful accounts	$ -	$ -
Trade accounts receivable, net	$ 1,520,805	$ 2,341,884
Unbilled receivables	$ 115,931	$ 36,176
Sales tax	$ -	$ 3,041
Trade and other receivables	$ 1,636,736	$ 2,381,101

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

	As at December 31, 2011	As at December 31, 2011
1 - 60 days past due	$ 495,195	$ 870,103
Greater than 60 days past due	$ 123,148	$ 165,790
	$ 618,343	$ 1,035,893

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:

(in Canadian Dollars)

	As at December 31, 2012	As at December 31, 2011
Aggregate amount of cost incurred and recognised in earnings for all contracts in progress	$ 8,211,153	$ 7,628,800
Less progress billings	$ 8,117,052	$ 7,734,393
	$ 94,101	$ (105,593)
Unbilled receivables	$ 115,931	$ 36,176
Deferred revenue	$ 21,830	$ 141,769

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 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)
At December 31, 2011	$ 223,779	$ 980,245	$ 968,563	$ 92,795	$ 2,265,382
Additions	$ 73,170	$ -	$ 96,899	$ 31,099	$ 201,168
Disposals	$ (9,836)	$ (596,448)	$ (13,322)	$ -	$ (619,606)
At December 31, 2012	$ 287,113	$ 383,797	$ 1,052,140	$ 123,894	$ 1,846,944

	Computer Equipment	Kiosks	Kiosk Tablets	Furniture and Equipment	Total
Accumulated Amortization:					
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)
At December 31, 2011	$ 147,535	$ 679,006	$ 728,801	$ 49,210	$ 1,604,552
Amortization	$ 45,619	$ 72,054	$ 129,715	$ 14,013	$ 261,401
Disposals	$ (8,433)	$ (522,689)	$ (3,402)	$ -	$ (534,524)
At December 31, 2012	$ 184,721	$ 228,371	$ 855,114	$ 63,223	$ 1,331,429

	Computer Equipment	Kiosks	Kiosk Tablets	Furniture and Equipment	Total
Carrying amounts:					
At December 31, 2011	$ 76,244	$ 301,239	$ 239,762	$ 43,585	$ 660,830
At December 31, 2012	$ 102,392	$ 155,426	$ 197,026	$ 60,671	$ 515,515

All of the above assets are pledged as security for debt obligations as identified in Note 20. There were no impairment indicators as at the end of December 2012 and 2011.

(in Canadian Dollars)

16. INTANGIBLE ASSETS

Cost:	Acquired Customer relationships	Acquired Shopper database	Total
At December 31, 2010	$ -	$ -	$ -
Business combination (Note 4)	$ 409,837	$ 41,460	$ 451,297
At December 31, 2012 and December 31, 2011	$ 409,837	$ 41,460	$ 451,297
Accumulated Amortization:			
At December 31, 2010	$ -	$ -	$ -
Amortization 2011	$ 26,631	$ 14,715	$ 41,346
At December 31, 2011	$ 26,631	$ 14,715	$ 41,346
Amortization 2012	$ 63,914	$ 26,745	$ 90,659
At December 31, 2012	$ 90,545	$ 41,460	$ 132,005
Carrying Amounts:			
At December 31, 2011	$ 383,206	$ 26,745	$ 409,951
At December 31, 2012	$ 319,292	$ -	$ 319,292

The above assets are the result of a business combination as presented in Note 4.

The remaining amortization period is five years for the customer relationships. Amortization expense is recorded in general and administrative expenses (Note 9).

17. CREDIT FACILITIES

At the year ended December 31, 2012, bank indebtedness was $Nil ($Nil at December 31, 2011). The Company has credit facilities with a chartered bank that will provide credit facilities up to $1,250,000 which is composed of a $1,000,000 demand operating loan at prime plus 1.5% (2011 – prime plus 6%) and a $250,000 committed term facility at prime plus 2% (2011 - $Nil), and they are repayable upon demand and secured by a general security agreement. The Company is on-side with all financial covenant ratios.

18. TRADE AND OTHER LIABILITIES

	As at December 31, 2012	As at December 31, 2011
Trade payables	$ 185,571	$ 366,153
Deferred cash payments, business combination (Note 4)	$ -	$ 44,000
Accrued liabilities and interest payable	$ 247,452	$ 497,416
Total accounts payable and accrued liabilities	$ 433,023	$ 907,569

19. 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. 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 20). 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.

(in Canadian Dollars)

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.

20. LONG TERM DEBT

	As at December 31, 2012	As at December 31, 2011
Installment loan, repayable in monthly installments of $10,417 plus interest at prime plus 2.0%, secured by a general security agreement over underlying assets and maturing on April 26, 2014.	$ 166,667	$ -
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 19). The loan is callable should the CEO resign his position.	$ -	$ 387,080
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 19).	$ 337,043	$ 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 ($999 CDN)and a final payment of $50,721 USD ($50,462 CDN) on May 1, 2013, unsecured.	$ 53,926	$ 63,212
	$ 557,636	$ 848,535
Current portion of long-term debt	$ 290,126	$ 456,368
Total long-term debt	$ 267,510	$ 392,167

21. OPERATING LEASES

The Company 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:

(in Canadian Dollars)

	As at December 31, 2012	As at December 31, 2011
Less than one year	$ 223,505	$ 218,122
Between one and five years	$ 439,032	$ 555,432
More than five years	$ -	$ -
Total operating lease rental payments payable	$ 662,537	$ 773,554

Operating lease expenses, which are charged to general and administrative expenses, were $220,201 for 2012 compared to $232,915 for 2011.

22. 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 December 31, 2010	13,702,979	$ 8,302,716
Issuance of common shares from exercise of options	523,333	92,685
Balance at December 31, 2011	14,226,312	$ 8,395,401
Issuance of common shares	-	-
Balance at December 31, 2012	**14,226,312**	**$ 8,395,401**

23. 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 five 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 640,000 options issued in 2012 (1,095,000 in 2011). The employee compensation expense related to options vested in fiscal 2012 is $90,510 (2011 - $24,337). The Company may issue up to 2,841,262 (2011 – 2,841,262) options for common shares under its stock option plan. At December 31, 2012, 616,262 common shares (1,041,262 at December 31, 2011) 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, 2012 and December 31, 2011, and changes during the years ended on those dates, is presented below:

(in Canadian Dollars)

	2012		2011	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	**1,800,000**	**$ 0.19**	1,300,000	$ 0.10
Granted	**640,000**	**0.36**	1,095,000	0.26
Exercised	**-**	**-**	(523,333)	0.10
Forfeited	**(215,000)**	**0.23**	(36,667)	0.20
Expired	**-**	**-**	(35,000)	0.10
Outstanding, end of year	**2,225,000**	**$ 0.24**	1,800,000	$ 0.19

The weighted average share price at the date of exercise was N/A ($0.34 in 2011).

The following table summarizes information about stock options as at December 31, 2012:

	Options Outstanding		**Options Exercisable**
Exercise prices	Number outstanding at Dec 31, 2012	Weighted average remaining contractual life (years)	Number exercisable at Dec 31, 2012
$0.10	690,000	0.14	459,999
$0.20	235,000	1.08	78,333
$0.235	150,000	1.58	49,998
$0.27	10,000	4.50	-
$0.28	410,000	1.75	136,664
$0.32	10,000	4.50	-
$0.33	100,000	1.96	33,333
$0.35	200,000	3.50	66,667
$0.36	400,000	4.50	-
$0.37	20,000	4.04	3,333
$ 0.10 to $ 0.37	2,225,000	2.76	828,327

The weighted average exercise price was $0.18 in 2012 (2011 - $0.10) for exercisable options.

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 Company uses the Black-Scholes model to calculate option values. The assumptions using the Black-Scholes option pricing model for 2012 were: a weighted average share price and exercise price of $0.36, risk free interest rate of 1.2% to 1.3%, volatility of 110% to 112% with no expected dividend yield, 25% assumed forfeiture and a four to five year estimated life. Assumptions 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.

(in Canadian Dollars)

The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the option.

The fair value of stock options granted during fiscal 2012 was $0.32 (2011 - $0.16).

24. 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 ($746,175CND) or 36 monthly payments to be made consisting of payments of $5,000USD ($4,975CND) per month if a minimum monthly revenue threshold of $90,000USD ($89,541CND) is met plus 30% of revenue above the monthly threshold to a maximum monthly payment of $20,800USD ($20,694 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. As at December 31, 2011, $121,127USD ($123,186CND) had been paid to creditors. The agreement ended as at August 31, 2011 with no amounts owed to either party.

25. CASH FLOW INFORMATION

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

		2012		2011
Trade and other receivables	$	744,365	$	(1,031,764)
Investment tax credits receivable	$	-	$	15,449
Prepaid expenses and deposits	$	(15,179)	$	23,263
Trade and other liabilities	$	(486,076)	$	485,435
Income taxes payable	$	(5,820)	$	13,900
Deferred revenue	$	(119,939)	$	12,304
Net change in non-cash working capital	$	117,351	$	(481,413)

26. FINANCE COSTS

Finance costs may be analyzed as follows for the fiscal year ending 2012 and 2011:

		2012		2011
Interest expense on loans	$	85,306	$	65,447
Interest expense on contingent consideration	$	27,529	$	3,108
Finance costs	$	112,835	$	68,555

27. INVESTMENT TAX CREDITS AND INCOME TAXES

Research and development expenses

As at December 31, 2012, the Company has research and development costs of approximately $371,000 (2011 - $789,000) which are available indefinitely to reduce future years' Canadian taxable income. The Company also has investment tax credit carry forwards of $176,000 (2011 - $176,000) which may be utilized to reduce future Canadian taxable income. These tax credits expire between 2022 and 2029. The future tax benefits associated with undeducted research and development costs and investment tax credit carry forwards has been recognized in the financial statements.

(in Canadian Dollars)

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 $1,508 that will be used up in the next year.

Tax loss carry forwards

As at December 31, 2012, the Company has non-capital losses in a foreign subsidiary, for which no deferred tax asset was recorded. These losses expire as follows:

		USA
2029	**$**	**219,642**
2030		**32,481**
2031		**775**
2032		**44,415**
	$	**297,313**

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 temporary differences:

		December 31, 2012
		USA
Non-capital losses	**$**	**297,313**
Property and equipment		**7,328**
	$	**304,641**

	December 31, 2011			
		Canada		USA
Non-capital losses	$	1,401,286	$	258,515
Property and equipment		39,850		(13,610)
	$	1,441,136	$	244,905

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

	December 31, 2012	December 31, 2011
Property and equipment	**295,576**	363,396
Intangible assets	**(12,665)**	(20,008)
Investment tax credits recoverable	**(46,677)**	(131,370)
Share issue costs	**10,900**	
Non-capital losses	**464,348**	13,837
SR&ED expenditure pool	**98,203**	200,510
Other	**(3,205)**	(27,835)
	806,480	398,530

(in Canadian Dollars)

The major components of deferred tax recovery can be summarized as follows:

	December 31, 2012	December 31, 2011
Origination and reversal of timing differences	**184,071**	204,339
Effect of change in tax rates	**(40,931)**	32,506
Adjustment of prior year deferred taxes	**(205,111)**	131,370
Tax effect of temporary differences for which no deferred tax asset was recorded	**(345,979)**	(787,319)
	(407,950)	(419,104)

Tax rate reconciliation

The actual tax provision differs from the expected provision based on the combined federal and provincial income tax rates for the following reasons:

	2012	2011
Income before income taxes	**$ 632,348**	$ 709,700
Combined Canadian Statutory tax rate	**26.5%**	28.25%
Expected tax expense (recovery)	**167,572**	200,490
Permanent differences	**25,582**	8,278
Foreign tax rate differences	**(157)**	(2,562)
Effect of change in tax rates	**(40,913)**	32,506
Change in expectation of asset utilization	**(345,979)**	(787,319)
Other	**(29,818)**	12,033
Investment tax credits not previously recognized	**(176,139)**	131,370
	$ (399,870)	$ (405,204)

Income taxes comprises:		
Deferred income tax	**$(407,950)**	$(419,104)
Current tax expense	**8,080**	13,900
	$(399,870)	$(405,204)

The combined Canadian Statutory tax rate declined to 26.5% in 2012 as a result of a decline in federal tax rate effective January 1, 2012.

28. 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, 2012	For the year ended December 31, 2011
Salaries	**$ 1,165,577**	$ 692,845
Directors' fees	**$ 35,500**	$ 34,000
Share-based compensation	**$ 28,284**	$ 7,316
Total Key Management Compensation	**$ 1,229,361**	$ 734,161

(in Canadian Dollars)

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

29. 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. The promissory note was paid full during 2011.

During fiscal 2012, the Company obtained legal services at a cost of $4,250 (2011 - $6,027) from a law firm in which one of the Company's directors is a principal. At December 31, 2012, $4,250 had been paid (2011 - $4,500 paid) and $Nil remained outstanding (2011 - $1,527).

On December 11, 2012, the Company made a loan in the amount of $193,725 to its Chief Executive Officer and a director, and a loan in the amount of $173,800 to a director to assist them to purchase all of the common shares of the Company held by their respective RRSPs due to recently enacted changes to the Income Tax Act (Canada). The shareholder loans will be repayable on December 10, 2013, and will bear interest at the rate of 3% per annum. The loans are secured by a pledge of the shares purchased from their RRSPs. Interest receivable on these loans of $654 was accrued as at December 31, 2012.

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

30. FINANCIAL INSTRUMENTS

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

	As at December 31, 2012	As at December 31, 2011
Financial assets:		
Loans and receivables		
Cash and cash equivalents	$ 494,542	$ 201,104
Trade accounts receivables	$ 1,520,805	$ 2,341,884
Shareholder loans receivable	$ 368,179	$ -
Total financial assets	$ 2,383,526	$ 2,542,988
Financial liabilities:		
Other financial liabilities		
Trade and other liabilities	$ 433,023	$ 907,569
Long-term debt	$ 557,636	$ 848,535
	$ 990,659	$ 1,756,104
Liabilities at fair value through profit or loss		
Contingent consideration	$ 120,273	$ 247,390
	$ 120,273	$ 247,390
Total financial liabilities	$ 1,110,932	$ 2,003,494

The carrying values of cash and cash equivalents, trade accounts receivables, shareholder loan receivables and trade and other liabilities approximate their fair values due to their relatively short periods to maturity. The contingent consideration is presented at 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 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:

(in Canadian Dollars)

	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Contingent consideration	$ -	$ -	$ 120,273	$ -	$ -	$ 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, 2012	**December 31, 2011**
Opening balance	**$247,390**	$ -
Business combination	**-**	341,376
Payments made	**(138,924)**	(137,948)
Loss recognized in net earnings	**11,807**	43,962
Closing balance	**$120,273**	$247,390

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

31. 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 and cash equivalents	Yes		Yes	Yes
Trade and other receivables	Yes		Yes	
Shareholder loans receivable	Yes			
Trade and other liabilities		Yes	Yes	
Long-term debt and finance lease obligations		Yes	Yes	Yes
Contingent consideration		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks, shareholder loans and trade accounts receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company minimizes the credit risk of cash and cash equivalents by depositing with only reputable financial institutions. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. The Company is not aware of any collection issue with any receivable not currently past due.

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 accounts receivables

Trade accounts receivables consists primarily of trade receivables (Note 14) from billings of services performed. 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 accounts receivables are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of earnings 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. Historically trade credit losses have been minimal.

A significant portion of the Company's sales were to a limited number of customers and consequently the Company is exposed to a concentration of credit risk. The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance or who represent 10% or greater of total revenue (Note 6). The Company's exposure with the three customers that fall into this category as at December 31, 2012, on aggregate, accounts for 52% of the Company's total accounts receivable balance (December 2011 – three customers representing 39%). Of these three customers, one is in the automotive industry and makes up 21% of the total net receivables (2011 – 17%), one is in the gas and convenience industry and makes up 15% of the total net receivables (2011 – one in the grocery industry at 9%) and the other is in the government services industry making up 20% of the total net receivables (2011 – 17%). These receivable balances as monitored very closely and the two retail customers are both Fortune 1000 companies.

The Company does not have any allowance for doubtful accounts as at December 31, 2012 and 2011. For details of the aging of the Company's trade receivables see Note 14.

Shareholder loans receivable

Shareholder loans are considered current assets and are repayable in full including interest on December 10, 2013. The loans are secured by a pledge of common shares.

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 as at December 31, 2012 and 2011:

(in Canadian Dollars)

	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years	Total
As at December 31, 2012:					
Trade and other payables	$ 433,023	$ -	$ -	$ -	$ 433,023
Long term debt	$ 21,128	$ 58,208	$ 310,395	$ 281,785	$ 671,516
Contingent consideration	$ 14,509	$ 43,527	$ 62,237	$ -	$ 120,273
	$ 468,660	$ 101,735	$ 372,632	$ 281,785	$ 1,224,812
As at December 31, 2011:					
Trade and other payables	$ 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

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, 2012, the Canadian entities US-dollar net monetary assets totaled approximately US$582,294 (CDN$579,324)(December 31, 2011 US$835,028(CDN$849,223)) and the Company's United States subsidiaries US-dollar monetary net assets totaled approximately US$(21,874) (CDN$21,762)(December 31, 2011 US$(246,999) (CDN$251,198)).
A 10% strengthening in the Canadian dollar against the United States dollar as at December 31, 2012 would have decreased net earnings by $59,079 (December 31, 2011 a decrease of $58,803) (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 and cash equivalents balances which are exposed to interest rate fluctuations. On December 31, 2012, cash and cash equivalents totaled $494,542 (December 31, 2011 - $201,104). An increase of 1% of the basis point in the market interest rate would have had a nominal effect on net earnings for the year ended December 31, 2012. 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 $3,910 effect as at December 31, 2012 on net earnings (December 31, 2011 - $632).

32. 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, long-term debt (including current portion), net of cash and cash equivalents as its capital.

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 tangible net worth of at least $1,000,000. Throughout 2012 and as at December 31, 2012 the Company is compliant with all its covenants.

(in Canadian Dollars)

		As at December 31, 2012		As at December 31, 2011
Long-term debt, including current portion	$	557,636	$	848,535
	$	557,636	$	848,535
Less cash and cash equivalents	$	494,542	$	201,104
Net debt	$	63,094	$	647,431
Shareholders' equity	$	3,235,030	$	2,212,302
Total capital, net	$	3,298,124	$	2,859,733
Net debt as a percentage of total capital		2%		23%

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 Company targets 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.

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, 2012 compared to the year ended December 31, 2011. The Company was successful in meeting its objectives.

33. CORRECTION OF PRIOR PERIOD ERROR

When transitioning to IFRS the Company incorrectly applied the IFRS 1 exemption option related to a business combination which previously under Canadian GAAP met the definition of a business acquisition. The Company has determined that the transaction would not meet the criteria of a business combination under IFRS and the transaction should have been accounted for as an asset acquisition on transition to IFRS. As a result the Company has reduced goodwill by $100,000 and increased opening deficit by $100,000 as at December 31, 2011 and January 1, 2011.

34. SUBSEQUENT EVENT

On April 1, 2013, the Company acquired the Field Research ("FR") division of NAVEX Global Inc. FR provides overt and covert on-site evaluations and inspections, primarily in the United States with some audits in Canada, to gauge compliance with legislation, regulations and organizational policies and procedures. The purchase amount for the FR division was $1,000,000. The Field Research division had revenues of $2,202,998 in 2012.