

# **Symbility Solutions Inc.**

## **Management's Discussion and Analysis**

### **November 12, 2013**

The following Management's Discussion and Analysis ("MD&A") of Symbility Solutions Inc. (the "Corporation") should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") for the three and nine months ended September 30, 2013, the 2012 Annual MD&A and the Corporation's audited financial statements and accompanying notes as of December 31, 2012 and 2011 ("Audited Financial Statements"), and the Annual Information Form dated December 31, 2012, all available on SEDAR. Any reference to the Corporation specifically relates to the company as separate from its operating segments. All operating results refer to the consolidated financials of the parent company and its subsidiaries unless specifically noted otherwise. Additional information about the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

All amounts are expressed in thousands of Canadian dollars unless otherwise noted.

This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The interim condensed consolidated financial statements and this MD&A have been reviewed by the Corporation's Audit Committee and approved by its Board of Directors.

#### **Forward-looking Statements**

This MD&A contains certain information that may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, research and development activities, projected costs and capital expenditures, financial results, the ability to raise capital, taxes and plans and objectives of or involving the Corporation.

Without limitation, information regarding the Corporation's future cost structure, future sales and marketing activities, increased penetration into certain markets through strategic partnerships, the impact of the introduction of new products, the ability of new management to leverage sales opportunities, increase in the size of certain markets, expected increases in revenue, expected revenue from certain contracts, customer rollout plans for specific products, expected increase in gross margins, Symbility Health software product placement targets and Symbility Property product placement targets are forward-looking information.

Forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results, events or developments to be materially different from what we currently expect. These risks include, among others, product development risk, potential product liability, risks related to third party contractual performance, customer demand, competition and the risks posed by potential technological advances, risks relating to the protection of the Corporation's intellectual property, risks relating to fluctuation in

foreign currency exchange rates, and exposure to increased credit and liquidity risk. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Corporation may elect to, the Corporation does not undertake to update this information at any particular time unless required by law. Unless otherwise indicated, this MD&A was prepared by management from information available up to November 12, 2013.

### **Non-IFRS Measures**

In addition to disclosing results in accordance with IFRS as issued by the IASB, the Corporation also provides supplementary non-IFRS measures as a method of evaluating the Corporation's performance. Management uses Adjusted EBITDA as a measure of enterprise-wide performance. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation and amortization, impairment losses, stock-based compensation, restructuring costs included in general and administration expense and other non-recurring gains or losses including transaction costs related to acquisition. Management believes Adjusted EBITDA is a useful measure that facilitates period-to-period operating comparisons. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB.

### **Overall Performance**

This financial information has been prepared in accordance with IAS 34. For further information and significant accounting policies, please see Notes 2 and 3 of the Audited Financial Statements.

<i>Selected Financial Information</i>	Three months ended September 30,		Nine months ended September 30,	
	<b>2013</b>	2012	<b>2013</b>	2012
Revenue	<b>\$5,430</b>	\$4,934	<b>\$16,424</b>	\$11,881
Cost of Sales	<b>\$1,028</b>	\$964	<b>\$3,094</b>	\$2,233
Expenses	<b>\$5,462</b>	\$4,129	<b>\$16,755</b>	\$12,278
Net Loss	<b>(\$1,032)</b>	(\$159)	<b>(\$3,339)</b>	(\$2,632)
Adjusted EBITDA	<b>(\$112)</b>	\$471	<b>\$323</b>	\$677
Loss per share <sup>(1)</sup>	<b>(\$0.01)</b>	(\$0.00)	<b>(\$0.02)</b>	(\$0.02)

<sup>(1)</sup> in Canadian dollars, rounded to the nearest cent

<i>As at September 30, 2013 and December 31, 2012</i>	<b>2013</b>	2012
Cash and cash equivalents	<b>\$11,361</b>	\$15,008
Total assets	<b>\$34,585</b>	\$36,409
Total long term liabilities	<b>\$333</b>	\$459

In the quarter ended September 30, 2013, consolidated revenue grew 10% as a result of customer deployments. Operating expenses (including non-cash expenses) increased 32% as compared to the comparative quarter due to increased marketing activity (including travel), increased headcount and increased stock-based compensation. Adjusted EBITDA was \$(112) compared to \$471 for the comparative quarter. The

net loss for the quarter ended September 30, 2013 is \$1,032 compared to net loss of \$159 for the comparable quarter. The Corporation had 110 employees as at September 30, 2013 (September 30, 2012 – 78).

As at September 30, 2013, Decision Insight Information Group and its affiliates (collectively "Decision Insight"), own 61,404,748 common shares representing approximately 29% of the outstanding shares of the Corporation. Marshall & Swift/Boeckh ("MSB"), a wholly owned subsidiary of Decision Insight, is a related party as a result of a common significant shareholder. On July 2, 2013 Decision Insight announced that it has signed a definitive agreement to sell, among other assets, all of its indirect ownership interest in the Corporation to a subsidiary of CoreLogic, Inc. ("CoreLogic"). The sale of its indirect interest is part of the proposed transaction announced by CoreLogic, pursuant to which CoreLogic will acquire the MSB and DataQuick Information Systems businesses (the "Proposed Transaction"). The Proposed Transaction is subject to certain customary conditions (including approval under US competition laws)..

The Corporation ended the nine months ended September 30, 2013 with cash and cash equivalents of \$11,361 (December 31, 2012 - \$15,008). Cash used for operating activities (\$84) and used in non-cash working capital changes (\$180) - primarily the deferral of revenue (\$1,476), increase in accounts payable and accrued liabilities (\$420) and offset by an increase in accounts receivable (\$1,832) and the purchase of additional capital assets (\$244), for an overall cash reduction of \$515 for the three months ended September 30, 2013.

### Adjusted EBITDA

The reconciliation of Adjusted EBITDA to IFRS net loss is presented in the following table:

	Three months ended		Nine months ended	
	2013	September 30, 2012	2013	September 30, 2012
IFRS Net Loss	<b>(\$1,032)</b>	(\$159)	<b>(\$3,339)</b>	(\$2,632)
Finance costs (income), net	<b>(28)</b>	-	<b>(89)</b>	2
Depreciation and amortization	<b>410</b>	359	<b>1,193</b>	728
Stock-based compensation	<b>538</b>	237	<b>2,555</b>	746
Transaction related expenses	-	34	-	1,833
Income tax expense	-	-	<b>3</b>	-
Adjusted EBITDA	<b>(\$112)</b>	\$471	<b>\$323</b>	\$677

The Corporation believes Adjusted EBITDA is a useful measure as a proxy for operating cash flow and facilitates period-to-period operating comparisons. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is widely used by investors in our industry to measure a company's operating performance without regard to items such as depreciation and amortization which can vary substantially from company to company depending upon accounting methods and book value of assets, financing methods, capital structure and the method by which assets were acquired; and
- It helps investors more meaningfully evaluate and compare the results of our operations from period-to-period by removing the impact of our asset base (primarily depreciation and amortization) and actions that do not affect liquidity (stock-based compensation expenses) from our operating results.

The Corporation uses Adjusted EBITDA in calculating incentive compensation for its officers and employees and under the Restricted Share Plans to measure achievement.

### **Operating segments**

The Corporation has two operating divisions which offer products and services to different segments of the insurance industry:

- The Symbility Property™ division (property and casualty software) provides powerful, accurate and easy-to-use claims processing and estimating software for Property and Casualty Insurers.
- The Symbility Health™ division (group insurance software) provides an advanced and practical software solution to a network of Employee Benefits Brokers and Third Party Administrator partners in the adjudication of health and dental claims. Symbility Health was previously identified as Adjudicare.

The Corporation allocates all expenses (including corporate costs) to each of these two operating divisions. Previously the Corporation included some costs as part of a Head office function. In 2013 the Corporation changed its evaluation of operations and began allocating all costs to one of the above divisions. All comparative amounts for prior periods have been restated to the current presentation. See Discussion of Operations for details on the financial performance of each operating segment. The Corporation's operating segments/divisions, reported the following business developments in 2013:

### **Symbility Property**

Symbility Property's Market Position and Product Strategy disclosed in the 2012 Annual MD&A issued on March 15, 2013 are substantially unchanged at this time.

#### *Sales & Marketing Initiatives*

In addition to the Sales and Marketing Initiatives disclosed in our 2013 MD&A dated on May 14, 2013, Symbility Property has continued to expand our Enterprise sales team in 2013. This expenditure is being made to capitalize on market opportunities for 2014. The Corporation will continue to expand its sales and marketing initiatives for global opportunities.

#### *Key Metrics*

Symbility Property derives its revenues from (i) subscription fees from customers accessing the Symbility Property cloud computing services, and (ii) professional services, which include programing services and training fees. Subscription revenues accounted for the majority of the Symbility Property revenues in the current year. Subscription revenues are driven by either the number of claims processed in a period, a minimum number of transactions per year with incremental fees for claims above the minimum number of transactions or an annual fixed fee license. Most Symbility Property contracts are for a multi-year period.

Management has provided the following metrics on the number of users of its Symbility Property software at the end of each period and the number of claims created in each period as an indication of the growing activity in Symbility Property.

	<u>Sep 30, 2013</u>	<u>Jun 30, 2013</u>	<u>Mar 31, 2013</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>
	(Q3)	(Q2)	(Q1)		
Users	37,469	34,576	29,830	25,622	17,080
Claims created	240,055	256,530	160,407	634,568	347,277

### *Outlook*

Management feels that on-going investments being made in sales and marketing initiatives create significant growth opportunities for Symbility Property. The customer event in Q1 2013 had twice the attendance as the prior year from industry participants, the adjuster and supply chain continues to expand and our market analysis shows a high proportion of top 25 carriers in the US are subject to renewal and are therefore a sales opportunity. Our international expansion has increased with our second European employee and the recently announced wins in the international markets. Our customer base continues to expand with 1,813 customers (December 31, 2012 – 1,373).

The Corporation is encouraged by some of the recent client contracts awarded and the significant progress it has made in implementing our strategic plan towards 2014. Management believes that these expenditures will be leveraged into meaningful revenue growth in 2014 and beyond.

### **Symbility Health**

Symbility Health's Market Position, Product Strategy and Sales and Marketing Initiatives disclosed in the 2012 Annual MD&A issued on March 15, 2013 are substantially unchanged at this time.

### *Outlook*

Management feels that the efforts made in the past two years have created a complete benefits platform for our partners and generated a significant amount of momentum in 2013 with the addition of technology such as online claims access and new third party offerings for Employee Assistance Programs, Second Opinion services, mobile claims with online claims submission, patent pending fraud detection and a customized process management functionality on the Symbility Health Claims Connect platform. This will expand our opportunities with larger customers who have need for this technology to complement their existing adjudication systems, our product offering is now able to fully compete with comparable offerings from insurance carriers and other TPAs. With all of these components in place and the investments continuing to be made in product enhancements, management believes that Symbility Health can continue to grow in 2014.

### **Discussion of Operations**

The following discussion includes an explanation of the primary factors in changes in operations in the three months ended September 30, 2013 ("Q3 2013") and the nine months ended September 30, 2013 ("YTD 2013") over the comparable periods. Additional, less significant changes are not articulated.

On April 10, 2012, the Corporation completed the acquisition of MSB's claims division ("MSB Claims Business") from MSB (the "MSB Acquisition"), as more fully described in Note 5 to the Corporation's Audited Financial Statements. As a result of the MSB acquisition, YTD 2013 results include nine months of the MSB Claims Business results and the comparable period only includes six months of results.

## Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Symbility Property	<b>\$4,474</b>	\$4,052	<b>\$13,474</b>	\$9,208
Symbility Health	<b>956</b>	882	<b>2,950</b>	2,673
Total	<b>5,430</b>	\$4,934	<b>\$16,424</b>	\$11,881

In Q3 2013 Symbility Property's revenue increase of 10% relates primarily to the incremental revenue from acquisition of new customers. Symbility Health's revenue growth of 8% is from its existing customers and due to a number of new small clients.

In YTD 2013, Symbility Property's revenue increase of 46% is due to the MSB Acquisition and acquisition of new customers Symbility Health's revenue growth of 10% is from its existing customers and due to a number of new small clients.

## Cost of Sales

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Symbility Property	<b>\$578</b>	\$569	<b>\$1,743</b>	\$1,104
Symbility Health	<b>450</b>	395	<b>1,351</b>	1,129
Total	<b>\$1,028</b>	\$964	<b>\$3,094</b>	\$2,233

In Q3 2013 Symbility Property's cost of sales increase relates to the incremental cost the database maintenance and enhancements (\$50) offset by a reduction in US data centre costs (\$47). Notwithstanding the increased cost, Symbility Property's gross margin increased slightly to 87% from 86%. Symbility Health's cost of sales increased due to higher costs on resale of certain products. Symbility Health's gross margin is 53%, decreased slightly from 55%.

In YTD 2013 Symbility Property's cost of sales increased by 58% and relates to additional costs from the MSB Acquisition for database amortization (\$245), the US data centre (\$66) and database maintenance and enhancements (\$297). Symbility Property's gross margin decreased slightly to 87% from 88%. Symbility Health's cost of sales increased by (20%) due to the lower margin on resale of certain products. Symbility Health's gross margin is 54%, decreased slightly from 58%.

Included in Q3 2013 and YTD 2013 Cost of Sales are non-cash charges of \$220 and \$660 respectively (2012 - \$219 and \$415), for amortization of the database license.

## ***Sales and Marketing***

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Symbility Property	<b>\$2,218</b>	\$1,577	<b>\$6,886</b>	\$3,866
Symbility Health	<b>340</b>	\$194	<b>845</b>	\$404
Total	<b>\$2,558</b>	\$1,771	<b>\$7,731</b>	\$4,270

In Q3 2013 Symbility Property's increase relates to additional personnel and related expenses such as commissions (\$203), travel expenses (\$92) due to greater activity and headcount, and additional outside marketing consultants (\$180). Also included are increases in non-cash expenses for higher stock-based compensation expenses (\$93). Symbility Health's increase relates to investment of additional sales and marketing personnel (\$55) and travel expenses (\$14). Symbility Health also incurred expenses to enhance the marketing and positioning strategy of the business (\$52) incurred primarily at the Symbility Health Partner Summit.

In YTD 2013 Symbility Property's increase relates to additional personnel and related expenses such as commissions (\$1,402), travel expenses (\$394) due to greater activity and headcount, trade show costs (\$367), and additional outside marketing consultants (\$263) and an increase various other expenses due to the MSB Acquisition. Also included are increases in non-cash expenses for the amortization of customer relationships from the MSB Acquisition (\$128) and higher stock-based compensation expenses (\$422). Symbility Health's increase relates to investment of additional sales and marketing personnel (\$141) and travel expenses (\$68). Symbility Health also incurred expenses to enhance the marketing and positioning strategy of the business (\$112) and additional consultants (\$53).

Included in Q3 2013 and YTD 2013 sales and marketing expense includes non-cash charges of \$113 and \$332 respectively (2012 - \$111 and \$205), for amortization of the customer relationships and non-cash charges of \$179 and \$745 respectively (2012 - \$74 and \$268), for stock-based compensation expense.

Symbility Property and Symbility Helath have increased its focus on sales and marketing to enable future growth aggressively for the past year. Management will continue to expand its sales and marketing initiatives in 2014 as it believes the market opportunity warrants this expense.

## ***Research and Development***

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Symbility Property	<b>\$984</b>	\$501	<b>\$2,757</b>	\$1,496
Symbility Health	<b>129</b>	111	<b>424</b>	311
Total	<b>\$1,113</b>	\$612	<b>\$3,181</b>	\$1,807

In Q3 2013 Symbility Property's increase is due to additional personnel hired to support product development initiatives and quality assurance (\$102), recruiting costs (\$62) and an increase in the use of consultants on projects (\$143) and a reduction in the estimated scientific research and development tax credits (\$74). Also included is an increase in non-cash charges of stock-based compensation expense for personnel (\$63). Symbility Health's increase is due to additional personnel hired to support product development initiatives and quality assurance (\$13), and a reduction in the estimate of scientific research and experimental development tax credits (\$13).

In YTD 2013 Symbility Property's increase is due to additional personnel hired to support product development initiatives and quality assurance (\$434), an increase in the use of consultants on projects (\$189) and a reduction in the estimate of scientific research and experimental development tax credits (\$154). Also included is an increase in non-cash charges for stock-based compensation expense (\$355). Symbility Health's increase is due to additional personnel hired to support product development initiatives and quality assurance (\$73), and a reduction in the estimate of scientific research and experimental development tax credits (\$50).

### **General and Administration**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Symbility Property	<b>\$1,516</b>	\$1,434	<b>\$5,104</b>	\$3,550
Symbility Health	<b>194</b>	216	<b>541</b>	650
<b>Total</b>	<b>\$1,710</b>	\$1,650	<b>\$5,645</b>	\$4,200

In Q3 2013 Symbility Property's increase is due to an increase in non-cash charges for stock-based compensation expense (\$124), offset by other small variances. Symbility Health's decrease is due to reduced travel expenses (\$16).

In YTD 2013 Symbility Property's increase is due to additional personnel (\$263) hired to support expanding business operations, additional use of consultants for specialised services (\$67) and an increase in various other expenses due to the MSB Acquisition such as infrastructure and rent (\$169), insurance (\$55) and services (\$80). Also included is an increase in non-cash charges for stock-based compensation expense (\$942). Symbility Health's decrease is due to reduced legal expenses (\$41) for contract reviews, reduced travel (\$30) and other administrative expenses.

### **Transaction Related Expenses**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Total</b>	<b>\$-</b>	\$34	<b>\$-</b>	\$1,833

Transaction related expenses were incurred to complete the Acquisition of the MSB Claims Business, which was completed on April 10, 2012.

## Other Operating Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Total	\$81	\$62	\$198	\$168

Other operating expenses include depreciation and amortization (excluding intangible assets acquired in the Transaction) and foreign exchange. There is no material change.

## Finance costs (income), net

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Total	(\$28)	\$-	(\$89)	\$2

Finance costs (income), net has increased due to higher cash balances on hand generating interest income. Finance income is shown net of finance costs.

## Summary of Quarterly Results

The following table shows selected financial information for each of the eight most recently completed quarters reported below in thousands of dollars, except per share amounts.

	Fiscal 2013			Fiscal 2012			Fiscal 2011	
	Sep 30, 2013 (Q3)	Jun 30, 2013 (Q2)	Mar 31, 2013 (Q1)	Dec 31, 2012 (Q4)	Sep 30, 2012 (Q3)	Jun 30, 2012 (Q2)	Mar 31, 2012 (Q1)	Dec 31, 2011 (Q4)
<b>Symbility Property Revenue</b>	\$4,474	\$5,020	\$3,979	\$3,728	\$4,052	\$3,674	\$1,482	\$1,407
<b>Symbility Health Revenue</b>	\$956	\$999	\$995	\$928	\$882	\$912	\$879	\$838
<b>Consolidated Revenue</b>	\$5,430	\$6,019	\$4,974	\$4,656	\$4,934	\$4,586	\$2,361	\$2,245
<b>Adjusted EBITDA</b>	(\$112)	\$635	(\$200)	\$161	\$471	\$273	(\$70)	\$324
<b>Net Loss</b>	(\$1,032)	(\$334)	(\$1,972)	(\$761)	(\$159)	(\$1,319)	(\$1,155)	(\$290)
<b>Net Loss per share <sup>(1)</sup></b>	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.00)

<sup>(1)</sup> In Canadian Dollars, rounded to the nearest cent in each quarter.

Over the past eight quarters, revenue has increased for the following reasons:

- Symbility completed the MSB Acquisition on April 10, 2012 which contributes to incremental revenue.
- Symbility Property continues to recognize revenue from the rollout of its new customers and users.
- Symbility Health has a small growth its customer base and incremental growth in existing customers.

Symbility Property revenue is based in part on claims volumes and typically has higher claims in the second and third quarter based on seasonal weather effects. Symbility Property expects that the growth in breadth and depth of our customer base and the evolution of our pricing model we will reduce this seasonality in the future. Symbility Health has limited seasonality due to the nature of the business.

Adjusted EBITDA is impacted by the seasonality of the Symbility Property revenue and timing of activities such as marketing events generally determined by the industry.

### **Liquidity and Capital Resources**

The Corporation has a working capital surplus of \$10747 at September 30, 2013 as compared to \$11,052 of working capital surplus at December 31, 2012.

The Corporation's current assets consist of cash and cash equivalents of \$11,361, accounts receivable and other assets of \$5,458, and prepaid and other assets of \$914. Current liabilities consist of accounts payable and accrued liabilities of \$3,206 and deferred revenue of \$3,780.

The Corporation believes it is sufficiently capitalized with a working capital surplus of \$10,747 at September 30, 2013. The Corporation's commitments disclosed in the 2012 Annual MD&A issued on March 15, 2013 are substantially unchanged at this time.

### **Capital Resources**

Management has decided that it is essential to invest in additional computer equipment and software to increase hosting capacity to support the growth of the Corporation. As well additional property and equipment will be required as the Corporation integrates operations acquired in the MSB Acquisition and replaces equipment at the end of its useful life. Subsequent to September 30, 2013, the Corporation has entered into commitments for capital expenditures under this plan of approximately (\$40).

### **Off Balance Sheet Arrangements**

The Corporation did not enter into any off balance sheet arrangements during the period ended September 30, 2013.

### **Related Party Transactions**

For the three-month and nine-month periods ended September 30, 2013, the Corporation expensed \$606 and \$1,804 respectively (September 30, 2012 - \$641 and \$1,209), for services under the four-year transition services agreement and database license agreement with MSB. The termination of the transition services agreement is subject to the earlier of i) the time when no customers are using certain existing MSB products, and ii) four (4) years following the effective date, which was on April 10, 2012 and iii) portions of the agreement upon 90 days' notice. For the three-month and nine-month periods ended September 30, 2013, the Corporation earned \$43 and \$309 respectively (September 30, 2012 - \$Nil and \$Nil), for services provided to MSB. As at September 30, 2013, the Corporation owed \$95 (December 31, 2012 - \$158) to MSB, net of services provided.

All of the above transactions were recorded at the exchange amount.

### **Significant Accounting Policies and Critical Accounting Estimates**

We describe our significant accounting policies and critical accounting estimates in Note 3 to the audited consolidated financial statements and the MD&A for the year ended December 31, 2012. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretation effective as of January 1, 2013 as described in Note 2 to the interim condensed consolidated financial statements for the three and nine months ended September 30, 2013. There are no significant changes in our accounting policies and critical accounting estimates for the three and nine months ended September 30, 2013.

### **Changes in Accounting Policies Not Yet Adopted**

The following accounting pronouncements issued by the IASB were not effective as of September 30, 2013. Management is currently evaluating the potential impact the adoption of these accounting pronouncements will have on the Corporation's consolidated financial statements:

#### i) IFRS 9 Financial Instruments: Classification and Measurement

In November 2009, the IASB issued IFRS 9 as the first part of its project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 currently prescribes that financial assets are measured at amortized cost or fair value on the basis of how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged, however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. The other phases of this project which are currently under development include impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Corporation is in the process of assessing the impact of the new standard on its consolidated financial statements in conjunction with the completion of the other phases of this project.

### **Financial Instruments and Risk Management**

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable and other, loan receivables, accounts payable and accrued liabilities and finance lease obligations and their carrying value approximates fair value due to their immediate or short-term maturity.

### **Risks and Uncertainties**

The results of operations and financial condition of the Corporation are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of Management. For a detailed discussion regarding the relevant risks and uncertainties, see the Corporation's annual MD&A and Annual Information Form for the year ended December 31, 2012. There have been no changes during the period ended September 30, 2013.

#### **Foreign Currency risk**

The Corporation's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products and services to customers invoiced in foreign currencies and the purchase of services invoiced in foreign currencies.

Of the Corporation's accounts receivable at September 30, 2013, 53% is denominated in U.S. dollars (December 31, 2012 - 38%) and 20% is denominated in U.K. pound sterling (December 31, 2012 - 20%). Of the Corporation's accounts payable at September 30, 2013, 27% is denominated in U.S. dollars (December 31, 2012 - 20%).

During the three-month and nine-month periods ended September 30, 2013, revenue was approximately 68% and 68% in U.S. dollars respectively (September 30, 2012 - 69% and 65%) and expenses were approximately 31% and 36% in U.S. dollars respectively (September 30, 2012 - 27% and 33%). During the three-month and nine-month periods ended September 30, 2013, revenue was approximately 8% and 9% in U.K. pound sterling respectively (September 30, 2012 - 9% and 4%).

#### **Credit risk**

As at September 30, 2013, the largest amounts due from three customers accounted for 24%, 21% and 21%, respectively, of the Corporation's total accounts receivable (December 31, 2012 - two customers - 19% and 11%, respectively).

#### **Liquidity risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Corporation's objective in managing liquidity risk is to maintain sufficient readily available cash reserves in order to meet its liquidity requirements at any point in time. The Corporation achieves this by maintaining sufficient cash and cash equivalents, managing cash from operations and through the raising of equity financing. As at September 30, 2013, the Corporation was holding cash and cash equivalents of \$11,361 (December 31, 2012 - \$15,008).

#### **Disclosure of Outstanding Share Data**

The following table summarizes each of the equity securities outstanding as of the date hereof:

Common Shares	205,486,334	Broker Warrants	1,136,375
Restricted Shares	3,291,527	Stock Options	16,073,399

#### **Addition Information**

Additional information concerning the Corporation, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).