*Consolidated Financial Statements of*

# POSERA – HDX Ltd.
## *(formerly Posera – HDX Inc.)*

*Years ended December 31, 2012 and 2011*

March 27, 2013

## Independent Auditor's Report

**To the Shareholders of**
**Posera-HDX Ltd.**

We have audited the accompanying consolidated financial statements of Posera-HDX Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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, 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 Posera-HDX Ltd. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Accountants, Licensed Public Accountants**

Waterloo, Ontario

# POSERA-HDX LTD. *(formerly POSERA-HDX INC.)*

## Consolidated Statements of Financial Position

**As at December 31, 2012 and 2011**

**(in Canadian dollars)**

| | | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| **ASSETS (Notes 12, 14, 16 and 22)** | | | | |
| CURRENT | | | | |
| Cash and cash equivalents (Note 4) | $ | 1,050,441 | $ | 2,431,720 |
| Accounts receivable (Notes 21 and 23) | | 3,118,902 | | 3,241,359 |
| Holdback receivable on the sale of Dexit Inc. (Note 5) | | - | | 200,000 |
| Current portion of lease receivable (Note 6) | | 12,388 | | 30,639 |
| Inventory (Note 8) | | 1,211,219 | | 1,209,621 |
| Investment credits receivable - refundable (Note 7) | | 1,087,707 | | 694,602 |
| Prepaid expenses and deposits | | 240,888 | | 204,214 |
| | | **6,721,545** | | **8,012,155** |
| NON-CURRENT | | | | |
| Property, plant and equipment (Note 9) | | 164,552 | | 250,876 |
| Deposit on leased premises | | 34,409 | | 34,411 |
| Lease receivable (Note 6) | | 28,881 | | 35,469 |
| Investment tax credits receivable - non-refundable (Note 7) | | 1,262,692 | | 1,013,879 |
| Deferred income tax assets (Note 19) | | - | | 72,500 |
| Intangible assets (Note 10) | | 4,701,300 | | 6,220,150 |
| Goodwill (Note 11) | | 4,330,746 | | 6,639,033 |
| | **$** | **17,244,125** | **$** | **22,278,473** |
| **LIABILITIES (Note 22)** | | | | |
| CURRENT | | | | |
| Bank indebtedness (Note 12) | $ | 256,784 | $ | 181,746 |
| Accounts payable and accrued liabilities (Notes 13, 21 and 23) | | 2,787,688 | | 2,736,843 |
| Provisions (Note 14) | | 210,000 | | - |
| Current portion of vehicle loans (Note 17) | | 10,215 | | 25,749 |
| Current portion of royalty payable (Note 15) | | 2,930 | | 4,078 |
| Current portion of notes payable (Note 16) | | 487,677 | | 300,493 |
| Income taxes payable (Note 19 and 14) | | 335,973 | | 32,917 |
| Conversion option (Note 18) | | - | | 35,556 |
| Deferred revenue | | 2,078,921 | | 1,839,356 |
| | | **6,170,188** | | **5,156,738** |
| NON-CURRENT | | | | |
| Deferred income tax liability (Note 19) | | 954,844 | | 1,472,190 |
| Vehicle loans (Note 17) | | 20,991 | | 42,126 |
| Royalty payable (Note 15) | | 119,242 | | 467,231 |
| Notes payable (Note 16) | | 491,842 | | 975,063 |
| | | **7,757,107** | | **8,113,348** |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | | | |
| SHARE CAPITAL (Note 20(a)) | | 50,790,093 | | 50,790,093 |
| CONTRIBUTED SURPLUS (Note 20(b, c)) | | 6,529,278 | | 5,620,947 |
| WARRANTS (Note 20(d)) | | - | | 766,973 |
| DEFICIT | | (47,744,231) | | (42,951,007) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | (88,122) | | (61,881) |
| | | **9,487,018** | | **14,165,125** |
| | **$** | **17,244,125** | **$** | **22,278,473** |

**Subsequent events (Note 28)**

**APPROVED BY THE BOARD**

Signed "Louden Owen" Director

Signed "David Del Chiaro" Director

See accompanying notes to the consolidated financial statements

# POSERA-HDX LTD. *(formerly POSERA-HDX INC.)*

## Consolidated Statements of Operations and Comprehensive Loss

**For the years ended December 31, 2012 and 2011**
**(in Canadian dollars, except for number of common shares)**

| | Year-ended December 31, 2012 | 2011 |
|---|---|---|
| REVENUE (Note 21) | $ 16,446,106 | $ 17,699,771 |
| COST OF SALES (Note 21 and 24) | | |
| Cost of inventory (Note 8) | 3,794,900 | 4,327,856 |
| Technology (Note 7) | 1,888,403 | 1,347,088 |
| Operations and support | 4,756,107 | 4,462,800 |
| **TOTAL COST OF SALES** | **10,439,410** | **10,137,744** |
| **GROSS PROFIT** | **6,006,696** | **7,562,027** |
| OPERATING EXPENSES (Note 21 and 24) | | |
| Sales and marketing | 3,314,850 | 2,981,107 |
| General and administrative (Note 14) | 5,272,964 | 5,029,990 |
| Impairment of assets (Note 10 and 11) | 2,419,864 | - |
| **TOTAL OPERATING EXPENSES** | **11,007,678** | **8,011,097** |
| | **(5,000,982)** | **(449,070)** |
| OTHER EXPENSES (INCOME) | | |
| Interest expense (Note 12, 15, 16 and 17) | 300,677 | 344,423 |
| Realized and unrealized loss (gain) on foreign exchange | 9,277 | (5,019) |
| Interest and other income | (14,270) | (10,938) |
| Gain on revaluation of financial instruments (Notes 15 and 18) | (435,047) | (184,810) |
| **TOTAL OTHER (INCOME) EXPENSES** | **(139,363)** | **143,656** |
| **NET LOSS BEFORE INCOME TAXES** | **(4,861,619)** | **(592,726)** |
| INCOME TAX EXPENSE (RECOVERY) | | |
| Current (Note 14 and 19) | 364,043 | 73,243 |
| Deferred (Note 19) | (432,438) | (2,151,865) |
| **NET (LOSS) INCOME, ATTRIBUTABLE TO OWNERS OF THE PARENT** | **$ (4,793,224)** | **$ 1,485,896** |
| Other comprehensive (loss) income on foreign translation | (26,241) | 9,515 |
| **NET COMPREHENSIVE (LOSS) INCOME, ATTRIBUTABLE TO OWNERS OF THE PARENT** | **$ (4,819,465)** | **$ 1,495,411** |
| BASIC (LOSS) INCOME PER SHARE (Note 20(e)) | $ (0.10) | $ 0.03 |
| DILUTED (LOSS) INCOME PER SHARE (Note 20(e)) | $ (0.10) | $ 0.03 |
| BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's) | 48,434 | 45,951 |
| DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES (in 000's) | 48,434 | 45,981 |

See accompanying notes to the consolidated financial statements

# POSERA-HDX LTD. *(formerly POSERA-HDX INC.)*

## Consolidated Statements of Changes in Equity

**For the years ended December 31, 2012 and 2011**

**(in Canadian dollars)**

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | | **2012** | | **2011** |
| DEFICIT BEGINNING OF YEAR | $ | (42,951,007) | $ | (44,436,903) |
| Net (loss) income, attributable to owners of the parent | | (4,793,224) | | 1,485,896 |
| **DEFICIT END OF YEAR** | **$** | **(47,744,231)** | **$** | **(42,951,007)** |
| ACCUMULATED OTHER COMPREHENSIVE LOSS BEGINNING OF YEAR | $ | (61,881) | $ | (71,396) |
| Other comprehensive (loss) gain on foreign translation | | (26,241) | | 9,515 |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS END OF YEAR** | **$** | **(88,122)** | **$** | **(61,881)** |
| **NET COMPREHENSIVE (LOSS) INCOME, ATTRIBUTABLE TO OWNERS OF THE PARENT** | **$** | **(4,819,465)** | **$** | **1,495,411** |
| SHARE CAPITAL BEGINNING OF YEAR | $ | 50,790,093 | $ | 49,882,776 |
| Issued upon acquisitions | | - | | 483,076 |
| Issued on exercise of stock options | | - | | 424,241 |
| **SHARE CAPITAL END OF YEAR (Note 20(a))** | **$** | **50,790,093** | **$** | **50,790,093** |
| CONTRIBUTED SURPLUS BEGINNING OF YEAR | $ | 5,620,947 | $ | 5,752,901 |
| Exercise of stock options | | - | | (308,423) |
| Stock based compensation | | 242,982 | | 176,469 |
| Expiry of Warrants (net of tax effect of $101,624 (2011 - $nil)) | | 665,349 | | - |
| **CONTRIBUTED SURPLUS END OF YEAR (Note 20(c))** | **$** | **6,529,278** | **$** | **5,620,947** |
| WARRANTS BEGINNING OF YEAR | $ | 766,973 | $ | 766,973 |
| Expiry of Warrants | $ | (766,973) | $ | - |
| **WARRANTS END OF YEAR (Note 20(d))** | **$** | **-** | **$** | **766,973** |

See accompanying notes to the consolidated financial statements

# POSERA-HDX LTD. *(formerly POSERA-HDX INC.)*

## Consolidated Statements of Cash Flows

**For the years ended December 31, 2012 and 2011**
**(in Canadian dollars)**

| | Years ended December 31, 2012 | 2011 |
|---|---|---|
| **NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES** | | |
| OPERATING | | |
| Net (loss) income | $ (4,793,224) | $ 1,485,896 |
| Items not affecting cash | | |
| Amortization of property, plant & equipment (Note 9) | 142,466 | 148,340 |
| Amortization of intangible assets (Note 10) | 1,316,287 | 1,178,102 |
| Amortization of deferred lease | - | (8,461) |
| Deferred income tax (recovery) expense | (432,438) | (2,151,865) |
| Tax on expiry of warrants recognized directly in contributed surplus | (101,624) | - |
| Gain on revaluation of financial instruments (Notes 15 and 18) | (435,047) | (184,810) |
| Impairment of goodwill (Note 11) | 2,248,885 | - |
| Impairment of intangible assets (Note 10 and 11) | 170,979 | - |
| Stock-based compensation expense (Note 20(b,c)) | 242,982 | 176,469 |
| Interest accretion (Note 15 and 16) | 214,942 | 190,579 |
| Increase in provisions (Note 14) | 210,000 | - |
| Loss on sale of property, plant & equipment (Note 9) | 4,390 | - |
| Unrealized loss on foreign exchange | 4,407 | 4,740 |
| | **(1,206,995)** | **838,990** |
| Changes in working capital items (Note 26) | 312,373 | (563,447) |
| | **(894,622)** | **275,543** |
| FINANCING | | |
| Repayment of vehicle loans | (36,669) | (30,236) |
| Issuance of vehicle loans | - | 24,749 |
| Proceeds from the exercise of stock options (Notes 20(a,b, c)) | - | 115,818 |
| Repayment of lease liability | - | (24,428) |
| Reduction of convertible debenture principle | - | (62,282) |
| Payment of royalties (Note 15) | (1,460) | - |
| Repayment of notes payable (Note 16) | (431,261) | (687,366) |
| | **(469,390)** | **(663,745)** |
| INVESTING | | |
| Disposition of Dexit Inc., net of cash (Note 3) | - | 2,025,781 |
| Acquisition of 2020 ITS Hospitality Assets (Note 3) | - | (285,000) |
| Acquisition of HDX Payment Processing Inc., net of cash (Note 3) | - | (147,725) |
| Acquisition of property, plant and equipment (Note 9) | (80,503) | (60,315) |
| Disposition of property, plant and equipment (Note 9) | 3,500 | - |
| Acquisition of intangible assets (Note 10) | (10,573) | (3,329) |
| | **(87,576)** | **1,529,412** |
| Foreign exchange (loss) gain on net cash and cash equivalents held in a foreign currency | **(4,729)** | **(3,054)** |
| NET CASH AND CASH EQUIVALENTS (OUTFLOW) INFLOW | **$ (1,456,317)** | **$ 1,138,156** |
| NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 2,249,974 | 1,111,818 |
| NET CASH AND CASH EQUIVALENTS, END OF PERIOD | **$ 793,657** | **$ 2,249,974** |
| FOR THE PURPOSE OF THIS STATEMENT, NET CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING | | |
| Cash and cash equivalents | $ 1,050,441 | $ 2,431,720 |
| Bank indebtedness | (256,784) | (181,746) |
| | **$ 793,657** | **$ 2,249,974** |
| SUPPLEMENTAL OPERATING CASH FLOW INFORMATION | | |
| Interest paid | $ 85,735 | $ 153,844 |
| Interest received | 14,270 | 10,938 |
| Income taxes paid | (6,524) | 56,583 |
| Investment tax credits received | - | 203,791 |

See accompanying notes to the consolidated financial statements

## 1. DESCRIPTION OF BUSINESS

Posera-HDX Ltd. ("Posera – HDX", "HDX" or the "Company"), is domiciled in Canada and is in the business of managing merchant transactions with consumers and facilitating payments emphasizing transaction speed, simplicity and accuracy. Posera - HDX develops and deploys touch screen point-of-sale ("POS") system software and associated enterprise management tools and has developed and deployed numerous POS applications. Posera - HDX also provides system hardware integration services, merchant staff training, system installation services, distribution of electronic cash registers to a network of value added resellers across Canada and post-sale software and hardware support services. Through Posera Inc. and its subsidiaries, collectively ("Posera"), the Company licenses, distributes and markets its hospitality POS software throughout the Americas, Europe & Asia.

Posera - HDX was founded in 2001 and is headquartered at 350 Bay Street, Suite 700, in Toronto, Canada M5H 2S6. The Company's common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol "HDX".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of preparation in accordance with IFRS*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (collectively "IFRS") issued that are effective on December 31, 2012. These consolidated financial statements were approved by the Board of Directors on March 27, 2013. These consolidated financial statements have been prepared on the historical cost basis, except for certain fair value through profit and loss financial instruments, which are carried at fair market values.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

*Reorganization*

On October 7, 2011, the Company was formed as a result of reorganization, by way of a plan of arrangement, which resulted in all of the assets and liabilities of Posera – HDX Inc., except for the Dexit radio frequency identification device ("RFID") business assets and liabilities, and certain other assets being transferred to Posera – HDX Ltd. The former security holders of Posera – HDX Inc. then became the security holders of Posera – HDX Ltd. Posera – HDX Inc. (renamed Dexit Inc), then became a wholly owned subsidiary of Posera – HDX Ltd. On October 28, 2011, Posera – HDX Ltd. then disposed of Dexit Inc. (Note 3). This reorganization was accounted for as a capital reorganization transaction at predecessor values. As such these consolidated financial statements are a continuation of the previous financial statements of Posera – HDX Inc.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Consolidation*

These consolidated financial statements include the accounts of Posera – HDX Ltd. and its wholly owned subsidiaries. These subsidiaries are A&A Point of Sale Solutions Inc. ("A&A"); Posera Inc. and its subsidiaries: Posera France SAS; Posera Europe Ltd.; Posera Software Inc.; Posera Singapore and Posera USA Inc. ("Posera"); Century Cash Register Inc. ("Century"); HDX Payment Processing Ltd. ("HDX Payment Processing"); and Posera – HDX Scheduler Inc. ("Posera – HDX Scheduler"). HDX Payment Processing and Posera – HDX Scheduler have been included in the consolidated financial statements since the date of acquisition, being December 15, 2011 and December 30, 2011 respectively. The subsidiary of Dexit Inc. (formerly Posera – HDX Inc.) ("Dexit"), which was formed as a result of the reorganization as disclosed above, was included in the consolidated financial statements until Dexit was disposed of on October 28, 2011 (Note 3).

Subsidiaries are those entities (including special purpose entities) over which the Company has the power to govern financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenditures, and gains and losses are eliminated.

*Presentation Currency*

These consolidated financial statements are presented in Canadian Dollars ("CAD").

*Foreign Currency Translation*

The functional currencies of all consolidated entities are CAD, with the exception of Posera Inc. and certain of its subsidiaries, which have functional currencies of the United States Dollar ("USD") (Posera Inc. and Posera USA Inc.), the U.K. Pound ("UKP") (Posera Europe Ltd.), the Euro (Posera France SAS), and the Singapore dollar ("SGD") (Posera Singapore). The Company translates the assets and liabilities of consolidated entities with differing functional currencies to CAD at the rate of exchange prevailing at the statement of financial position date and revenues and expenses of those operations using the average rates of exchange during the period. Gains and losses resulting from this translation are recorded in accumulated other comprehensive loss, a component of shareholders' equity.

*Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the consolidated statements of operations

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Segments*

The Company has organized its business around different products and services. Each acquired business is a separate operating segment. The Company then aggregates the operating segments into reportable segments based on the similarities of the products and services that are offered to its customers, the types of customers that products and services are provided to, and the methods used to distribute products and provide services. The chief decision maker of the company was determined to be the Company's Chief Executive Officer (the "CEO"), and as such the Company determined its reportable segments based upon the reports the chief decision maker utilized to evaluate performance and allocate resources. Revenues from external customers are geographically allocated to countries based upon the place where the customers are located.

*Business Combinations*

Business combinations that occurred after January 1, 2010 have been accounted for in accordance with IFRS 3, Business Combinations ("IFRS 3"), whereby acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, contingent consideration and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition related costs are expensed as incurred, except for incremental costs of issuance of debt or equity instruments. The acquired identifiable assets and liabilities are recognized at their fair values at the acquisition date. Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets acquired and liabilities assumed.

If the Company's interest in the net fair value of the acquired identifiable assets and liabilities exceeds the cost of the business combination, the excess is recognized immediately as a bargain purchase gain in the consolidated statements of operations.

Subsequent to initial recognition, measurement of contingent consideration depends on whether it is an equity instrument or a financial asset or liability. Subsequent changes in the fair value of the contingent consideration that is deemed to be a financial asset or liability is recognized in the statement of operations as gain on financial instruments through profit and loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

*Financial assets and liabilities*

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets held, including amounts from related parties, are accounts receivable, lease receivables, investment tax credits receivable, holdback receivable on the sale of Dexit, and cash and cash equivalents. These are classified into the following specified categories: loans and receivables, and at fair value through profit and loss. Financial liabilities held, including amounts due to related parties, are bank indebtedness, accounts payable and accrued liabilities, vehicle loans, notes payable, royalty payable, and the conversion option.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

These are classified into the following specified categories: other liabilities and at fair value through profit and loss. The classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Accounts receivable, cash and cash equivalents, investment tax credits receivable and holdback receivable on the sale of Dexit Inc. are classified as loans and receivables. Loans and receivables are initially measured at fair-value, and subsequently at amortized cost less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The conversion option is classified as fair value through profit and loss, and as such is initially and subsequently measured at fair-value, with any change in fair-value being recorded through the consolidated statements of operations.

Accounts payable and accrued liabilities, bank indebtedness, vehicle loans, royalty payable and notes payable are all classified as other liabilities, and initially measured at fair-value and subsequently at amortized cost using the effective interest method. Interest expense is recognized by applying the effective interest rate, except for short-term payables when the recognition of interest would be immaterial.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

*Financial assets - impairment*

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of operations. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the Statements of Operations to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Cash and cash equivalents*

Cash and cash equivalents consist primarily of demand accounts on deposit at financial institutions and short-term liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

*Inventory*

Inventory consists of point-of-sale equipment for resale and service parts, which are required to fulfill HDX's contractual obligations and have been valued at the lower of average cost and net realizable value. Inventory cost is substantially comprised of the costs paid to purchase equipment.

*Investment tax credits*

Investment tax credits, are earned as a result of incurring qualifying research and development expenditures and are accounted for using the cost reduction method. Under this method, investment tax credits are treated as a reduction of the cost of the acquired assets or of the related expenses in the period that the credits become available, there is reasonable assurance that the conditions for their receipt will be complied with and that the grant will be received and it is probable that they will be realized.

*Long-lived assets - property plant and equipment*

Property, plant and equipment ("PP&E") are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PP&E consists of the purchase price, and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

Depreciation is provided at rates calculated to write off the cost of PP&E, less their estimated residual value, using the straight-line method, as follows:

| | |
|---|---|
| Office furniture and fixtures | 5 years |
| Computer equipment | 3 years |
| POS & ATM Equipment | 3 - 5 years |
| Vehicles | 5 years |
| Leasehold improvements | Life of the lease |

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or upon disposal. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of operations.

## *2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized. Repairs and maintenance costs are charged to the statement of operations during the period in which they are incurred. Residual values, method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

*Long-lived assets - Intangible assets*

Intangible assets acquired individually, are initially recognized and measured at fair value, and subsequently at their initial fair-values, less accumulated amortization and impairment. The fair value of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their fair values at the time of acquisition. Where intangible assets are acquired in a transaction that does not constitute a business combination, the cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives. The estimated useful lives of intangible assets, are as follows:

| | |
|---|---|
| Technology Assets | 5.5 - 10 years |
| Non-Competition Agreements | 1 year |
| Revenue Sharing Agreement | 3 years |
| Trade Names | 20 years |
| Customer Relationships | 7.5 - 10 years |
| Computer software | 3 years |

The method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

*Long-lived assets - Goodwill*

Goodwill is not amortized, but is instead tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

*Cash-generating units ("CGUs")*

For the purposes of measuring recoverable amounts, assets are grouped at the lowest level for which there are largely independent cash inflows. Goodwill acquired in a business combination is allocated to each of the Company's CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each of the Company's CGUs to which goodwill is allocated represents the lowest level within the Company at which goodwill is monitored for internal management purposes; and is not larger than an operating segment. The Company has determined that the CGUs of the Company are QSR, SabrePoint and Biz-Pro; A&A Point of Sales Solutions Inc.; Century Cash Register Inc.; Posera Inc. (and its subsidiaries); HDX Payment Processing Inc.; and Posera – HDX Scheduler Inc. During 2012, the Company grouped the Biz-Pro CGU, which was previously a separate CGU, with the QSR & SabrePoint CGU. This was the result of the Biz-Pro CGU no longer having cash-flows independent of the cash-flows of QSR & Sabrepoint.

## *2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

*Long-lived Assets – Impairment*

At each financial reporting date, the carrying amounts of the Company's long-lived assets (or CGUs) are reviewed to determine whether there is any indication that those assets (or CGUs) are impaired. If any such indication exists, the recoverable amount of the asset (or CGU) is estimated in order to determine the extent of the impairment, if any. For long-lived assets (or CGUs) not subject to amortization, the recoverable amount of the asset (or CGU) is estimated at least annually; or more frequently if there are any indications of potential impairment. Indicators of potential impairment may include, but are not necessarily limited to: unanticipated competition; loss of a significant customer; significant deterioration of margin; changes in the regulatory or legal framework in which the Company operates; or product discontinuance.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset (or CGU) in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU). If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and the impairment loss is recognized in the Statements of Operations for the period.

If a CGU is impaired, the impairment is allocated first to Goodwill, with the remainder allocated rateably to the remaining long-lived assets based upon the relative carrying-values. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. Goodwill impairment losses are not subsequently reversed. A reversal of an impairment loss is recognized immediately the consolidated statements of operations.

*Lease inducements*

Lease inducements represent funds provided by the landlord for property improvements and rent-free periods, if any.  Lease inducements are amortized on a straight-line basis over the term of the leases and the amortization is recorded as a reduction in rent expense.

*Deferred revenue*

Deferred revenue is comprised primarily of fees received for warranty for hardware and software and support for point-of-sale solutions in advance of providing the services covered therein.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Convertible debentures*

The Company classifies a financial instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the contractual arrangement's substance. The Company bifurcated the convertible debenture into its two components, the; (a) Note payable and the (b) Conversion option that represents a derivative financial liability. The Company allocated the total face value of the convertible debenture on the date of the Posera acquisition by determining the fair value of the conversion option, with the residual being allocated to the note payable.

*Royalty payable*

As part of the acquisition of the Hospitality Assets of 2020 ITS Inc., through its subsidiary Posera – HDX Scheduler Inc., as disclosed in Note 3, the Company is obligated to pay a royalty based upon certain future sales of a technology purchased. The royalty payable was initially recognized at the present value of estimated future royalties payable under the asset purchase agreement. The liability will attract interest and will be adjusted in the future for changes in the estimated total payout under the royalty agreement. Both the interest accretion and the changes in the estimate of the total obligation will be recognized as charges or credits to the consolidated statements of operations in the period in which the amounts are incurred**.**

*Income taxes*

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities as well as for the benefits of losses available to be carried forward for tax purposes. Deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Financing - Transaction Costs*

Incremental costs incurred in respect of raising capital or debt are charged against the equity or debt proceeds raised, unless the instrument to which the transaction costs relate is classified as fair value through profit and loss in which case the incremental costs are expensed in the Statements of Operations immediately.

*Equity - Share-based payments*

The Company's stock-based compensation plan is described in Note 20(b). The share option plan allows Company employees and directors to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate and estimated forfeitures. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Where the Company issues share-based payments to non-employees for services or assets, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair-value of the goods or services received, unless the fair value of the goods or services received cannot be estimated reliably, in which case the Company measures the goods or services received indirectly by reference to the fair value of the equity instruments granted.

*Equity – Warrants*

The Company accounts for warrants by measuring the fair value of the warrant at the date on which the respective warrant is issued. When warrants are issued in conjunction with shares of the Company, the cash proceeds received, net of cash offering costs, are prorated between share capital and warrants based on the relative fair value of each. The fair value of the warrants is determined using the Black-Scholes option-pricing model. When warrants are exercised, cash received upon exercise and the amounts previously credited to warrants are reversed and credited to share capital.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable for the gross inflow of economic benefits during the period, arising in the ordinary course of the Company's activities. The Company derives revenues from the following sources:

a) Revenue from POS systems, digital video recording ("DVR") systems and POS parts and consumables is recognized when the Company has transferred to the customer the significant risks and rewards of ownership, the Company does not retain continuing managerial involvement with or effective control of the goods, the amount of revenue can be measured reliably, it is probable the economic benefits associated with the sale will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. These conditions are generally met when the product has been installed. POS and DVR systems generally include a one year support contract. The Company allocates revenue to each component of the transaction using the relative fair value of each separately identifiable component. The Company defers the fair value of the support services under the agreement, as deferred revenue at the time of sale. Revenue on the support services is then recognized in line with the customer support contract policy below.

b) Revenue from customer support contracts is deferred and recognized as revenue on a straight-line basis over the term of the contract.

c) PCS and hosting service revenue are accounted for as services. Revenue is recognized when amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Generally PCS and hosting service revenue is recognized on a straight-line basis over the term of the contract.

d) Services revenue relates to the delivery of consulting and system integration services with revenue recognized upon delivery and acceptance by the customer.

e) Software perpetual licenses are accounted for as sales of products as the customer has a perpetual right to use the software freely and the Company has no remaining obligations to perform after delivery of the software. The revenue from these products is recognized when the Company has transferred to the customer the significant risks and rewards of ownership of the software, the Company does not retain continuing managerial involvement with or effective control over the software, the amount of revenue can be measured reliably, it is probable the economic benefits associated with the sale will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. These conditions generally are met when the application software has been delivered.

f) Revenue from processing transactions is recognized at the time the transactions are processed.

*Cost of sales*

Cost of sales includes the cost of inventory utilized in the period, depreciation, amortization, impairments, salaries, and other expenditures, which directly relate to the revenue recognized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Earnings (loss) per share*

The Company presents basic and diluted earnings (loss) per share data for its Common Shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of Common Shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Common Shares outstanding for the effects of all dilutive potential Common Shares.

*Critical accounting judgments*

The following are the significant accounting judgments that were made in the preparation of the financial statements.

a. Cash-generating units (“CGU”s)

   In testing for impairment of certain assets that do not have independent cash inflows, the Company is required to group non-goodwill long-lived assets into CGUs which is the lowest level of assets that produce cash inflows which are independent of other assets.

   Goodwill is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes and is not larger than an operating segment.

b. Functional currency of consolidated entities.

   Under IFRS, each consolidated entity must determine its own functional currency, which becomes the currency that entity measures its results and financial position in. In determining the functional currencies of consolidated entities, the Company considered many factors, including the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labour material and other costs for each consolidated entity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Critical accounting estimates*

Preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies. Additionally, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The following are the estimates that are subject to significant estimate and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

a. *Intangible asset – December 31, 2012 - $4,701,300 (December 31, 2010 - $6,220,150) and Goodwill – December 31, 2012 - $4,330,746 (December 31, 2011 - $6,639,033), and related Goodwill and Intangible assets impairments for the years ended December 31, 2012 - $2,248,885 and $170,979 respectively (December 31, 2011 - $nil and $nil respectively)*
    - Critical estimates relate to the valuation of intangible assets and goodwill acquired in business combinations and the potential or actual impairment of intangible assets and goodwill as part of the CGU impairment testing. See detailed disclosure surrounding acquisitions including sensitivities on impairment estimates in Note 10 and 11.
b. *Royalty payable – December 31, 2012 - $122,172 (December 31, 2011 - $471,309) and related gain on revaluation for the periods ended December 31, 2012 - $399,491 (December 31, 2011 - $Nil)*
    - See detailed disclosure including sensitivities surrounding royalty payable valuation estimates in Note 15.
c. *Conversion option – December 31, 2012 - $Nil (December 31, 2011 - $35,556) and related gain on revaluation for the years ended December 31, 2012- $35,556 (December 31, 2011 - $184,810)*
    - See detailed disclosure including sensitivities surrounding Conversion Option valuation estimates in Note 18.
d. *Valuation of shares issued in business combinations – December 31, 2012 - $Nil (December 31, 2011 - $483,076)*
    - To account for the hold-periods of the respective share consideration and the number of shares issued in relation to the total outstanding shares of the Company which will make sale of the shares more difficult, the Company applied a liquidity discount of 25% in 2011 from the market-value of freely tradable shares. A 5% decrease in the liquidity discount applied would increase equity and goodwill values by $32,000 in 2011.
e. *Useful life and amortization of intangible assets*
    - See detailed disclosure of intangible asset useful lives in Note 2 above. A decrease of the average useful lives of intangible assets by 1 year, would increase amortization by $216,000 (2011 - $190,000)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. *Investment Tax Credits Receivable – non-refundable – December 31, 2012 - $1,262,692 (December 31, 2011 - $1,013,879) and related investment tax recovery for the years ended December 31, 2012 - $339,284 (December 31, 2011 - $131,525)*
   - Management estimates that the non-refundable Investment Tax Credits receivable will be recoverable before expiry. See detailed disclosure surrounding the expiry dates for non-refundable Investment Tax Credits Receivable in Note 7. An annualized 2.50% decrease in the forecasted taxable income of the entity with the Non-Refundable Investment Tax Credits Receivable would not cause any of the tax credits to expire before use.

g. *Provision for income tax and information return penalties – December 31, 2012 - $210,000 (December 31, 2011 - $nil) and related expenditures for the years ended December 31, 2012 - $210,000 (December 31, 2011 - $nil)*
   - See detailed disclosure surrounding the provision at Note 14.

*IFRS standards issued but not yet effective*

The International Accounting Standards Board ("IASB") has issued the following standards and amendments effective for annual periods beginning on or after January 1, 2013 (other than IFRS 9, which is effective for annual periods beginning on or after January 1, 2015 and the IAS 1 amendment which is effective for annual periods beginning on or after July 1, 2012) with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments. The Company does not intend to early adopt the standards.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring investments in equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

**(in Canadian dollars, except as noted)**

## 3. ACQUISITIONS AND DIVESTITURES

*(a) During the year ended December 31, 2012*

There were no acquisitions or divestitures during the year-ended December 31, 2012.

*(b) During the year ended December 31, 2011*

*(i) Divestiture of Dexit Inc.(formerly Posera – HDX Inc.) ("Dexit")*

On October 28, 2011 Posera-HDX Ltd. completed the divestiture of all the issued and outstanding shares of Dexit which was formed as a result of the reorganization disclosed in Note 2. The sale price was an aggregate of $2,031,571 in cash, subject to certain post-closing adjustments. Of the $2,031,571 sale price, $1,831,571 was received on closing, with a $200,000 holdback as disclosed in Note 6.

The Company incurred net deal costs on the reorganization of Dexit and sale in the amount of $nil (2011 - $93,981), net of a recovery from the purchaser of $nil (2011 - $125,000), which were included in General and Administrative Operating Expenditures as incurred.

As part of the divestiture of Dexit the Company entered into a standard indemnification regarding the pre-closing liabilities of Dexit, under which the Company believes that an outflow of resources will be remote. The results of Dexit's operations have been included in the consolidated financial statements until the divestiture on October 28, 2011.

The carrying value of Dexit's net assets on October 28, 2011 were as follows :

| **Net Assets:** | |
|---|---|
| Cash | $ 5,790 |
| Restricted Cash | 20,454 |
| Other Current Assets | 27,073 |
| Deferred Income Tax Assets | 2,000,000 |
| Current liabilities | (21,746) |
| **Net assets divested** | **$ 2,031,571** |

| **Consideration:** | |
|---|---|
| Cash consideration | $ 1,831,571 |
| Holdback receivable on the sale of Dexit Inc. (Note 6) | 200,000 |
| **Total consideration** | **$ 2,031,571** |

*(ii) Acquisition of HDX Payment Processing Ltd. (formerly Cash N Go Ltd.) ("Cash N Go")*

On December 15, 2011 Posera-HDX completed the acquisition of all the issued and outstanding shares of Cash N Go. The purchase price was an aggregate of $397,571, comprised of $157,571 in cash and 1,000,000 common shares of Posera-HDX, with a hold-period that were not freely tradable until December 15, 2013, with a fair-value of $240,000. The acquisition provided the Company with a payment switch solution to market to its customer base.

The Company incurred deal costs on the transaction of $nil (2011 - $33,434), which were included in General and Administrative Operating Expenditures as incurred.

**(in Canadian dollars, except as noted)**

## 3. ACQUISITIONS AND DIVESTITURES *(continued)*

The results of Cash N Go's operations have been included in the consolidated financial statements since December 15, 2011. During the year-ended December 31, 2012, Cash N Go has generated revenue of $11,731 (2011 - $58) and incurred a net loss of $555,928 (2011 - $19,389). The acquisition of Cash N Go is accounted for using the acquisition method. HDX is identified as the acquirer. The following table summarizes the fair value of the assets acquired and liabilities assumed and consideration paid at the date of the acquisition. The cost of the intangible assets acquired includes Computer Software of $224,481. Goodwill represented the excess earning capacity as a result of synergistic revenue opportunities and cost reductions.

The identifiable net assets of Cash N Go that were acquired at fair value as at December 15, 2011 are as follows:

| **Net Assets:** | |
|---|---|
| Cash | $ 9,846 |
| Current assets excluding cash | 9,243 |
| Property, plant and equipment | 67,091 |
| Intangible assets | 339,761 |
| Current liabilities | (35,800) |
| Deferred Income Tax Liability | (68,904) |
| Goodwill acquired in business combination | 76,334 |
| **Net assets acquired** | **$ 397,571** |

| **Consideration:** | |
|---|---|
| Cash consideration | $ 157,571 |
| Share consideration | 240,000 |
| **Total consideration** | **$ 397,571** |

*(iii) Acquisition of certain Hospitality assets of 2020 ITS Inc. ("2020")*

On December 30, 2011, Posera-HDX completed the acquisition of certain hospitality assets of 2020, through a wholly owned subsidiary Posera – HDX Scheduler Inc. The purchase price was an aggregate of $999,385, comprised of $285,000 in cash, 1,045,488 common shares of Posera-HDX, which had a hold-period, and were not freely tradable until February 1, 2013, with a fair-value of $243,076, and a royalty payable on future sales of a certain technology acquired, whose fair-value was estimated at $471,309 on the date of acquisition. The acquisition of 2020 provided the Company with a complementary technology product suite to its existing products, and customer relationships to market the Company's products.

The Company incurred deal costs on the transaction in the amount of $nil (2011 - $29,099), which was expensed in the Statement of Operations as incurred. The results of 2020's operations have been included in the consolidated financial statements since December 30, 2011. During the year-ended December 31, 2012, 2020 has generated revenue of $268,304 (2011 - $nil) and incurred net income of $153,438, which includes the gain on revaluation of the royalty payable disclosed in note 15 of $399,491 (2011 - $nil).Posera-HDX is identified as the acquirer. The following table summarizes the fair value of the assets acquired and liabilities assumed and consideration paid at the date of the acquisition. The cost of the intangible assets acquired includes Customer Relationships $164,000 and Technology $489,000. Goodwill represented the excess earning capacity as a result of synergistic revenue opportunities and cost reductions, and the assembled workforce.

**(in Canadian dollars, except as noted)**

## 3. ACQUISITIONS AND DIVESTITURES *(continued)*

The identifiable net hospitality assets of 2020 that were acquired at fair value as at December 30, 2011 are as follows:

| **Net Assets:** | |
|---|---|
| Current assets excluding cash | $ 20,000 |
| Current liabilities | (5,000) |
| Property, plant and equipment | 10,000 |
| Deferred tax assets | 72,500 |
| Intangible assets | 653,000 |
| Goodwill acquired in business combination | 248,885 |
| **Net assets acquired** | **$ 999,385** |

| **Consideration:** | |
|---|---|
| Cash consideration | $ 285,000 |
| Share consideration | 243,076 |
| Royalty consideration (Note 15) | 471,309 |
| **Total consideration** | **$ 999,385** |

## 4. CASH AND CASH EQUIVALENTS

Cash and Cash equivalents is comprised of the following:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Demand accounts | $ 1,050,441 | $ 1,430,832 |
| Banker acceptance bearing interest at 1.08% with a maturity date of January 15, 2012 | - | 1,000,888 |
| **Total** | **$ 1,050,441** | **$ 2,431,720** |

## 5. HOLDBACK RECEIVABLE ON THE SALE OF DEXIT INC.

As part of the divestiture of Dexit Inc. as disclosed in Note 3, $200,000 of the cash consideration received was held in trust until the Escrow Agent released the funds on October 31, 2012.

## 6. LEASE RECEIVABLE

During the year ending December 31, 2012, the Company recognized finance income of $5,759 (2011 - $9,245) in the consolidated financial statements. The Company's net lease receivable includes the following;

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Total minimum lease payments receivable | $ 52,886 | $ 81,693 |
| Unearned finance income | (11,617) | (15,585) |
| **Total lease receivable** | **$ 41,269** | **$ 66,108** |
| Short-term portion | 12,388 | 30,639 |
| **Long-term portion** | **$ 28,881** | **$ 35,469** |

**(in Canadian dollars, except as noted)**

## 6. LEASE RECEIVABLE (*continued*)

Future minimum lease payments receivable under the sales leases are as follows;

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| 2012 | $ - | $ 36,652 |
| 2013 | 15,596 | 14,701 |
| 2014 | 10,732 | 9,840 |
| 2015 | 10,732 | 9,840 |
| 2016 | 10,732 | 9,840 |
| 2017 and thereafter | 5,094 | 820 |
| **Total** | **$ 52,886** | **$ 81,693** |

## 7. INVESTMENT CREDITS AND INVESTMENT TAX CREDITS RECEIVABLE

Investment tax credits related to Scientific Research and Experimental Design and investment credits related to Electronic Business, were recorded in the consolidated statements of operations as a reduction in technology expenses in the amount of $710,162 during the year ended December 31, 2012 (2011 - $589,990). As of December 31, 2012, a subsidiary of the Company has refundable investment tax credits receivable totaling $1,087,707 (December 31, 2011 - $694,602) which is pledged for bank indebtedness, and non-refundable investment tax credits receivable totaling $1,285,589 (December 31, 2011 - $1,013,879) which expire according to the schedule below:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| 2027 | $ 118,493 | $ 191,307 |
| 2028 | 243,660 | 243,660 |
| 2029 | 170,772 | 170,772 |
| 2030 | 161,198 | 161,198 |
| 2031 | 288,103 | 246,942 |
| 2032 | 280,466 | - |
| **Total** | **$ 1,262,692** | **$ 1,013,879** |

In order to receive the investment credits and investment tax credits receivable the Company must file its tax returns no later than 18 months after the period to which the claim relates.

## 8. INVENTORY

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Inventory held for resale | $ 941,604 | $ 913,137 |
| Inventory held as service stock | 269,615 | 296,484 |
| **Total** | **$ 1,211,219** | **$ 1,209,621** |

**(in Canadian dollars, except as noted)**

## 8. INVENTORY *(continued)*

For the year ending December 31, 2012, the Company expensed $3,678,032 (2011 - $4,100,905) related to inventory consumed. Throughout the fiscal period, the Company assesses the carrying amount of inventory on hand and determines if any inventory needs to be written-down to net realizable value. For the year ending December 31, 2012 the Company wrote refurbished service stock down by $29,427 (2011 - $11,790). As at December 31, 2012 a total of $1,211,219 (December 31, 2011 - $1,209,621) of inventory is pledged as collateral for certain debentures as disclosed in Note 16. A general security agreement exists in relation to a note payable amounting to $5,535 (December 31, 2011 - $70,040). Additionally, as at December 31, 2012 $59,294 (December 31, 2011 - $70,705) of inventory is secured to certain bank indebtedness which supersedes the general security agreement. This bank indebtedness has a balance outstanding of $12,426 as at December 31, 2012 (December 31, 2011 - $29,944).

## 9. PROPERTY PLANT AND EQUIPMENT ("PP&E")

| | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| | December 31, 2012 | | |
| Office furniture and fixtures | $ 79,353 | $ 60,372 | $ 18,981 |
| Computer equipment | 401,493 | 329,372 | 72,121 |
| POS & ATM equipment | 6,385 | 639 | 5,746 |
| Vehicles | 178,298 | 143,144 | 35,154 |
| Leasehold improvements | 52,684 | 20,134 | 32,550 |
| **Total** | **$ 718,213** | **$ 553,661** | **$ 164,552** |
| | December 31, 2011 | | |
| Office furniture and fixtures | $ 81,874 | $ 39,776 | $ 42,098 |
| Computer equipment | 374,966 | 256,359 | 118,607 |
| Vehicles | 178,298 | 106,188 | 72,110 |
| Leasehold improvements | 28,688 | 10,627 | 18,061 |
| **Total** | **$ 663,826** | **$ 412,950** | **$ 250,876** |

The following is a reconciliation of the net book value for PP&E:

| | Cost | Accumulated Amortization | Net book value |
|---|---|---|---|
| **Balance - January 1, 2011** | **$ 1,865,125** | **$ 1,605,262** | **$ 259,863** |
| Acquisition of PP&E | 60,315 | - | 60,315 |
| Business combinations (Note 3) | 77,091 | - | 77,091 |
| Divestiture of Dexit (Note 3) | (1,340,188) | (1,340,188) | - |
| Amortization of PP&E | - | 148,340 | (148,340) |
| Translation adjustment | 1,483 | (464) | 1,947 |
| **Balance - December 31, 2011** | **$ 663,826** | **$ 412,950** | **$ 250,876** |
| Acquisition of PP&E | 80,503 | - | 80,503 |
| Disposition of PP&E | (10,000) | (2,110) | (7,890) |
| Amortization of PP&E | - | 142,466 | (142,466) |
| Translation adjustment | (16,116) | 355 | (16,471) |
| **Balance - December 31, 2012** | **$ 718,213** | **$ 553,661** | **$ 164,552** |

**(in Canadian dollars, except as noted)**

## 10. INTANGIBLE ASSETS

| | Cost | Accumulated amortization and impairment | Net book value |
|---|---|---|---|
| | December 31, 2012 | | |
| Technology assets | $ 4,142,354 | $ 2,790,501 | $ 1,351,853 |
| Trade name | 878,809 | 265,299 | 613,510 |
| Customer relationships | 6,107,833 | 3,690,163 | 2,417,670 |
| Non-compete agreements | 185,407 | 185,407 | - |
| Revenue sharing agreement | 743,666 | 661,036 | 82,630 |
| Computer software | 377,582 | 141,945 | 235,637 |
| **Total** | **$ 12,435,651** | **$ 7,734,351** | **$ 4,701,300** |
| | December 31, 2011 | | |
| Technology assets | $ 4,178,355 | $ 2,362,319 | $ 1,816,036 |
| Trade name | 882,601 | 229,175 | 653.426 |
| Customer relationships | 6,124,966 | 3,045,392 | 3,079,574 |
| Non-compete agreements | 185,407 | 185,407 | - |
| Revenue sharing agreement | 743,666 | 413,148 | 330,518 |
| Computer software | 354,739 | 14,143 | 340,596 |
| **Total** | **$ 12,469,734** | **$ 6,249,584** | **$ 6,220,150** |

The following is a reconciliation of the net book value for Intangible Assets:

| | Cost | Accumulated amortization and impairment | Net book value |
|---|---|---|---|
| **Balance – January 1, 2011** | **11,625,739** | **5,273,717** | **6,352,022** |
| Amortization | - | 1,178,102 | (1,178,102) |
| Business combinations (Note 3) | 992,761 | - | 992,761 |
| Acquisition | 3,329 | - | 3,329 |
| Translation adjustment | (152,095) | (202,235) | 50,140 |
| **Balance - December 31, 2011** | **$ 12,469,734** | **$ 6,249,584** | **$ 6,220,150** |
| Amortization | - | 1,316,287 | (1,316,287) |
| Impairment (Note 11) | - | 179,979 | (179,979) |
| Acquisition | 10,573 | - | 10,573 |
| Translation adjustment | (44,656) | (11,499) | (33,157) |
| **Balance - December 31, 2012** | **$ 12,435,651** | **$ 7,734,351** | **$ 4,701,300** |

**(in Canadian dollars, except as noted)**

## 11. GOODWILL

Goodwill by reportable segment and CGU

| | Net Book Value Before Impairment | Impairment Loss | Net Book Value |
|---|---|---|---|
| | December 31, 2012 | | |
| **Direct Segment** | | | |
| QSR, SabrePoint and Biz-Pro | $ 3,562,676 | $ 2,000,000 | $ 1,562,676 |
| Century Cash | 17,548 | - | 17,548 |
| **Sub-total** | **3,580,224** | **2,000,000** | **1,580,224** |
| **POS Software Segment** | | | |
| Posera | 2,674,188 | - | 2,674,188 |
| Posera – HDX Scheduler | 248,885 | 248,885 | - |
| **Sub-total** | **2,923,073** | **248,885** | **2,674,188** |
| **Other Segments** | | | |
| HDX Payment Processing | **76,334** | - | **76,334** |
| **Total** | **$ 6,579,631** | **$ 2,248,885** | **$ 4,330,746** |
| | December 31, 2011 | | |
| **Direct Segment** | | | |
| QSR, SabrePoint and Biz-Pro | $ 3,562,676 | $ - | $ 3,562,676 |
| Century Cash | 17,548 | - | 17,548 |
| **Sub-total** | **3,580,224** | - | **3,580,224** |
| **POS Software Segment** | | | |
| Posera | 2,733,590 | - | 2,733,590 |
| Posera – HDX Scheduler | 248,885 | - | 248,885 |
| **Sub-total** | **2,982,475** | - | **2,982,475** |
| **Other Segments** | | | |
| HDX Payment Processing | **76,334** | - | **76,334** |
| **Total** | **$ 6,639,033** | **$ -** | **$ 6,639,033** |

Reconciliation of Goodwill

| | Net Book Value |
|---|---|
| **Balance – January 1, 2011** | **$ 6,253,605** |
| Business combinations (Note 3) | 325,219 |
| Translation adjustment | 60,209 |
| **Balance - December 31, 2011** | **$ 6,639,033** |
| Goodwill impairment (i) | (2,248,885) |
| Translation adjustment | (59,402) |
| **Balance – December 31, 2012** | **$ 4,330,746** |

**(in Canadian dollars, except as noted)**

**11. GOODWILL (*continued*)**

(i) During the year ended December 31, 2012, the Company assessed an impairment of $2,000,000 related to the goodwill allocated to the QSR, Sabrepoint and Biz-Pro CGU in the Direct POS Segment, and an impairment of $419,864 related to the goodwill and intangible assets allocated to the Posera-HDX Scheduler CGU in the POS Software Segment, because of the deterioration in the higher of the value-in-use and fair-value less costs to sell. The impairments recorded reflect value-in-use as it was higher than the fair-value less costs to sell. For the QSR, Sabrepoint and Biz-Pro CGU, this was primarily the result of a reduction in the estimated terminal earnings growth rate as a result of a downward revision of long-term forecasts; whereas, for the Posera – HDX Scheduler CGU, this was primarily the result of a reduction in the Years 1 – 5 earnings growth rate, reflecting the downward revision to the forecasted sales of certain technology products. The key assumptions utilized to calculate the higher of value-in-use and fair-value less costs to sell are detailed below. These impairments are included in the operating expenditures in the consolidated statements of operations.

The following key assumptions were used in calculating the higher of value-in-use and fair-value less costs to sell by CGU as at December 31, 2012, the date of the Company's impairment testing:

| | QSR, SabrePoint & Biz-Pro | Posera | Posera – HDX Scheduler | HDX Payment Processing |
|---|---|---|---|---|
| Years 1 – 5 earnings growth rate (i) | 2 - 5% | 2 - 5% | 10 - 20% | 10 - 20% |
| Terminal earnings growth rate (ii) | 0% | 3% | 3% | 2% |
| After-tax discount rate (iii) | 14% | 15% | 13% | 13% |
| Pre-tax discount rate (iii) | 18% | N/A | 17% | N/A |
| Probability of synergistic transaction (iv) | N/A | N/A | N/A | 50% |

(i) Earnings growth was projected based on past experience, actual operating results, and a market participant's expected view of the 5 year forecasts of the CGUs..
(ii) Earnings were extrapolated further using a constant growth rate, which does not exceed the long-term average growth rate for the industry.
(iii) The discount rate was estimated based upon industry average after-tax and pre-tax weighted cost of capital, adjusted for the specific risks of the CGU.
(iv) The probability of a synergistic transaction was based upon management's assessment of market opportunities, availability of financing and other factors.

For the Posera CGU, the higher of value-in-use and fair-value less costs to sell exceeded the carrying value by $260,000. See below for the resultant impairment by CGU, if any, as a result of the specified change to the key assumptions above, in isolation.

| Change | QSR, SabrePoint & Biz-Pro | Posera | Posera – HDX Scheduler | HDX Payment Processing |
|---|---|---|---|---|
| Reduction of 2.5% (i) | $320,000 | $200,000 | $40,000 | $nil |
| Reduction of 1% (ii) | $110,000 | $60,000 | $10,000 | $nil |
| Increase of 1% (iii) | $210,000 | $170,000 | $20,000 | $nil |
| Decrease of 25% (iv) | N/A | N/A | N/A | $320,000 |

**(in Canadian dollars, except as noted)**

## 12. BANK INDEBTEDNESS

The Company has a $12,426 as at December 31, 2012 (December 31, 2011 - $28,944) revolving line of credit, with interest at 6.59% over Bank of England base rate (December 31, 2011 – 6.69%). The effective interest rate was 7.09% (2011 – 7.19%) for the year ended December 31, 2012. The revolving line of credit is secured by a floating lien on assets, with a carrying value of $253,852 as at December 31, 2012 (December 31, 2011 - $372,033). Under the terms of this line of credit, the subsidiary must satisfy two restrictive covenants, which are the debtor coverage ratio and interest coverage ratio. As at December 31, 2012 and December 31, 2011, the Company did not comply with the interest coverage ratio, and as such, at its option, the bank could withdraw the credit facility and demand repayment.

As at December 31, 2012 the Company had utilized $191,000 (2011 - $152,802) of its credit facilities, of an available $191,000 (2011 - $191,000) to finance investment tax credits. These facilities bear interest at the Canadian bank prime rate plus 2.25%, with an effective interest rate of 5.25% (2011 – 5.25%) and are payable in full upon receipt of the investment tax credit receivables and are secured by a floating lien on current and future investment tax credit receivables with a current carrying value of $1,087,707 (2011 - $ 694,602). This facility has been guaranteed up to 80% by Investissement Quebec.

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Trade payables (Note 21) | $ 1,876,843 | $ 2,143,975 |
| Accrued charges | 910,845 | 592,868 |
| **Total accounts payable and accrued liabilities** | **$ 2,787,688** | **$ 2,736,843** |

## 14. PROVISIONS

| | Provision for income tax and information return penalties |
|---|---|
| **Balance – January 1, 2012** | **$ -** |
| Increase in provisions (i) | 210,000 |
| **Balance – December 31, 2012** | **$ 210,000** |

(i) During the year ended December 31, 2012, the Company became aware that certain income tax and information returns were past-due, which may be subject to certain penalties provided by legislation, the amount and timing of which is not certain. The full amount or a portion of these penalties, and associated income tax balances may be recouped by the Company through an indemnification agreement, although the amount and timing of the inflow is uncertain, and as such an asset and recovery is not recorded in these consolidated financial statements.

**(in Canadian dollars, except as noted)**

## 15. ROYALTY PAYABLE

As part of the acquisition of certain hospitality assets of 2020, as disclosed in Note 3, the Company agreed to pay a royalty based on future sales to non-customers as of the date of acquisition, of a certain technology acquired, which was determined to be part of the purchase price. The fair-value of the royalty payable was estimated on the date of acquisition to be $471,309. The fair-value of the royalty payable was determined utilizing a discount rate of 11.00%, and is accreted for interest utilizing the effective interest rate method, reduced for payments, and adjusted for changes in estimates. For the year ending December 31, 2012 $51,814 (2011 - $nil) in accretion interest expense and a revaluation gain of $399,491 (2011 - $nil) was recorded in the consolidated statements of operations, due to a revision in the estimated cash-flows subject to royalty.

A reconciliation of the Royalty Payable is as follows:

| | Carrying value |
|---|---|
| **Balance – January 1, 2011** | **$ -** |
| Recorded on acquisition of certain Hospitality assets of 2020 (Note 3) | 471,309 |
| **Balance – December 31, 2011** | **$ 471,309** |
| Interest accretion | 51,814 |
| Revaluation gain | (399,491) |
| Royalty payments | (1,460) |
| **Balance – December 31, 2012** | **$ 122,172** |

The royalty payable valuation sensitivity to +/- 5% in revenues applicable to royalties and +/- 1% to the discount rate is $14,000 (2011 - $26,000) and $6,000 (2011 - $51,000) respectively.

**(in Canadian dollars, except as noted)**

## 16. NOTES PAYABLE

| | | Carrying Value | |
|---|---|---|---|
| # | Details | December 31, 2012 | December 31, 2011 |
| 1 | Bank loan with a nominal and effective interest rate at the Bank of Scotland base rate plus 2.5%, repayable in monthly principal installments of £500, with a letter of guarantee from the directors of Posera Europe Ltd. totaling £35,000 and is unsecured. | $ - | $ 5,530 |
| 2 | Loan from prior Posera shareholders, with a nominal interest rate of 5.00% and an effective interest rate of 9.50% due in full on April 30th 2013 and is unsecured. The terms of this debt were revised subsequent to December 31, 2012 as disclosed in Note 28 to these financial statements. | 209,214 | 187,771 |
| 3 | Convertible debenture with a nominal interest rate of 3.95% and an effective interest rate of 9.50%, due in April, 2015, with monthly installments of USD $33,633 including interest. The debenture is convertible into Class A Common Shares until May 5, 2012 at $0.645 per Common Share. As at December 31, 2012 and 2011, the convertible debenture is convertible into Nil and 2,035,838 Common Shares respectively. The convertible debenture is secured with the Posera assets source code, all recodes, accounts, money and proceeds derived from the source code and any part thereof; which, as at December 31, 2012 have a carrying value of $834,902 (2011 - $1,154,665). | 764,770 | 1,012,215 |
| 4 | Note payable with a nominal and effective interest at a rate of 5.50%, with monthly payments of $5,560 including interest, ending January 1, 2013. A General Security agreement of the Company has been pledged as security for the note payable. The assets under the General Security Agreement have a carrying value of $17,323,952 (2011 - $22,278,473). | 5,535 | 70,040 |
| | **Total Notes Payable** | **979,519** | **1,275,556** |
| | Current portion of the Notes Payable | 487,677 | 300,493 |
| | **Long-term portion of the Notes Payable** | **$ 491,842** | **$ 975,063** |

| | Fair Value | |
|---|---|---|
| # | December 31, 2012 | December 31, 2011 |
| 1 | - | 5,285 |
| 2 | 203,210 | 175,999 |
| 3 | 825,457 | 1,203,704 |
| 4 | 5,313 | 68,614 |
| **Total** | **$ 1,033,981** | **$ 1,453,602** |

**(in Canadian dollars, except as noted)**

## 16. NOTES PAYABLE (*continued*)

Principal and interest payments required in the next five years and thereafter are as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| 2012 | - | 484,402 |
| 2013 (Note 28) | 590,429 | 617,683 |
| 2014 | 386,928 | 410,457 |
| 2015 | 165,697 | 171,024 |
| 2016 and thereafter | - | - |
| **Sub-total** | **1,143,054** | **1,683,566** |
| Less: Interest | (163,535) | (408,010) |
| **Total** | **$ 979,519** | **$ 1,275,556** |

For the year ending December 31, 2012, interest expense of $202,271 (2011 - $341,940) was recorded in the consolidated statements of operations in relation to notes payable.

## 17. VEHICLE LOANS

HDX uses vehicles in order to perform aspects of its business. Commitments for future payments of principle and interest on vehicle loans are as follows:

| Year | December 31, 2012 | December 31, 2011 |
|---|---|---|
| 2012 | $ - | $ 28,235 |
| 2013 | 11,144 | 17,069 |
| 2014 | 11,144 | 17,069 |
| 2015 | 8,442 | 8,442 |
| 2016 and thereafter | 2,392 | 2,392 |
| | 33,122 | 73,207 |
| Less: Interest | (1,916) | (5,332) |
| | **$ 31,206** | **$ 67,875** |
| Short-Term Portion | 10,215 | 25,749 |
| **Long-Term Portion** | **$ 20,991** | **$ 42,126** |

The Company makes monthly loan payments of $929 (2011 - $2,641), which includes interest payments. The security provided for the loans is the acquired vehicle related to that specific loan. Interest expense of $1,519 (2011 - $3,058) related to vehicle loans was recorded in the consolidated statements of operations.

**(in Canadian dollars, except as noted)**

## 18. CONVERSION OPTION

As part of the purchase price for the acquisition of Posera on May 1, 2010, the Company issued a convertible debenture, the terms of which are disclosed in Note 16. The conversion option is required to be presented as a derivative liability under IAS 32, with changes to the fair-value recorded in the consolidated statements of operations. The conversion option expired unexercised on May 5, 2012.

The following key assumptions were used in determining the fair-value at the respective dates:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Fair value of Common Shares | N/A | $ 0.33 |
| Volatility | N/A | 104.86% |
| Risk free rate | N/A | 0.95% |
| Carrying Value | N/A | $35,556 |
| Sensitivity of +/- 5% volatility | N/A | $6,000 |

## 19. INCOME TAXES

Certain investment tax credits were netted against the expenses which were incurred to earn the credits, see Note 8. Deferred income tax assets are recorded to the extent it is probable that the Company will be able to recover such deferred income tax assets.

Deferred tax items recognized in net income were distributed as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Deferred tax recovery originated or reversed in current year | (123,280) | (155,635) |
| Recognition of previously unrecognized deferred taxes | (287,465) | (2,000,000) |
| Effect on deferred tax expense (recovery) from changes in tax rates | (21,693) | 3,770 |
| **Total** | **(432,438)** | **(2,151,865)** |

A reconciliation of the deferred income tax liabilities and assets is as follows:

| | Tax losses & SRED expenditure | Investment tax credits | Intangible assets | Royalty payable | Convertible Debenture | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance – January 1, 2011** | **$ 307,336** | **$ (389,000)** | **$ (1,380,000)** | **$ -** | **$ (91,000)** | **$ 15,000** | **$ (1,537,664)** |
| Deferred income tax recovery (expense) | 1,953,974 | (90,000) | 297,943 | 173 | 14,000 | (24,216) | 2,151,865 |
| Acquisitions/Divestitures (Note 3) | (2,000,000) | - | (101,447) | 117,827 | - | (12,784) | (1,996,404) |
| Exchange differences | - | - | (17,487) | - | - | - | (17,487) |
| **Balance – December 31, 2011** | **$ 261,310** | **$ (479,000)** | **(1,201,000)** | **118,000** | **(77,000)** | **(22,000)** | **(1,399,690)** |
| Deferred income tax recovery (expense) | 370,846 | (184,000) | 251,592 | (118,000) | 40,000 | 72,000 | 432,438 |
| Exchange differences | - | - | 12,408 | - | - | - | 12,408 |
| **Balance – December 31, 2012** | **$ 632,156** | **$ (663,000)** | **$ (937,000)** | **$ -** | **$ (37,000)** | **$ 50,000** | **$ (954,844)** |

**(in Canadian dollars, except as noted)**

## 19. INCOME TAXES (*continued*)

A reconciliation between the Company's statutory and effective tax rate for the year ended December 31 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Tax recovery at statutory rate | 28.33 % | 28.25 % |
| Permanent differences | (18.65) | (12.31) |
| Gain on expired warrants charged directly to equity | 2.09 | - |
| Effect on deferred tax expense from changes in tax rates | 0.45 | (0.64) |
| Filing adjustments | (12.51) | (0.66) |
| Current year losses and deductible temporary differences for which no deferred tax asset was recognized | (3.49) | (11.92) |
| Recognition of previously unrecognized deferred tax assets | 5.91 | 337.42 |
| Other | (0.18) | 4.76 |
| Effect of foreign operations | (0.54) | 5.79 |
| | **1.41 %** | **350.69 %** |

The weighted average statutory tax rate was 28.33% (2011 – 28.25%), largely due to the Canadian federal tax rate decreasing from 16.50% to 15.00% effective January 1, 2012, which was offset by the higher tax rates applicable in some foreign jurisdictions.

A reconciliation of deferred tax liabilities and assets to the statement of financial position is as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Deferred income tax liabilities to be settled after the next fiscal year | (954,844) | (1,472,190) |
| Deferred income tax assets to be settled after the next fiscal year | - | 72,500 |
| **Total** | **(954,844)** | **(1,399,690)** |

*Non-capital losses*

No deferred tax has been recorded in respect to investments in foreign subsidiaries, as there are no anticipated distributions or transactions in the foreseeable future. The company has not recognized the deferred tax asset relating to a $466,376 (2011 - $547,000) intangible asset deductible temporary difference. In addition, the Company has non capital losses available for carry-forward to reduce future years' income for tax purposes, which, if unused, will expire as follows in the respective jurisdictions:

**(in Canadian dollars, except as noted)**

## 19. INCOME TAXES (*continued*)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Canada | United States | United Kingdom | Singapore |
| 2015 | $ 8,000 | $ - | $ - | $ - |
| 2026 | 9,000 | - | - | - |
| 2029 | 8,000 | - | - | - |
| 2030 | 14,000 | - | 11,000 | - |
| 2031 | 1,000 | - | 72,000 | - |
| 2032 | 558,000 | 476,000 | 67,000 | - |
| Indefinite | - | - | - | 62,000 |
| | **$ 598,000** | **$ 476,000** | **$ 150,000** | **$ 62,000** |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Canada | United States | United Kingdom | Singapore |
| 2015 | $ 13,000 | $ - | $ - | $ - |
| 2026 | 9,000 | - | - | - |
| 2029 | 8,000 | - | - | - |
| 2030 | 14,000 | 49,000 | - | - |
| 2031 | 1,000 | 261,000 | - | - |
| | **$ 45,000** | **$ 310,000** | **$ -** | **$ -** |

## 20. SHARE CAPITAL

*(a) Authorized and issued*

*Authorized*

An unlimited number of Class A voting common shares (“Common Shares”), with no par value.

An unlimited number of Class B non-voting common shares (“Class B”) – non-voting convertible into Common Shares at the option of the holder, on a share for share basis, with no par value. As at December 31, 2011 and December 31, 2010 there are nil Class B issued or outstanding.

| *Common Shares Issued* | | Number of Common Shares | $ |
|---|---|---|---|
| **Balance, January 1, 2011** | | **45,458,390** | **49,882,776** |
| Issued upon exercise of options | (i) | 926,544 | 424,241 |
| Issued upon acquisitions (Note 3) | (ii) | 2,049,488 | 483,076 |
| **Balance, December 31, 2011 and December 31, 2012** | | **48,434,422** | **50,790,093** |

(i) During the year ended December 31, 2011 926,544 stock options were exercised representing an increase in share capital of $424,241 of which $115,818 was received in cash, with a weighted average exercise price of $0.125.

## 20. SHARE CAPITAL (*continued*)

(ii) As disclosed in Note 3, during the year ended December 31, 2011, the Company completed the acquisition Cash 'N Go Ltd. (now renamed HDX Payment Processing Ltd.) ("Cash N Go"). The purchase price included the issuance of 1,000,000 Posera-HDX common shares, which are subject to a 24 month hold period, with a fair-value of $0.24 cents.

As disclosed in Note 3, during the year ended December 31, 2011, the Company completed the acquisition of certain assets of 2020 ITS Inc. (now renamed Posera-HDX Scheduler Inc.) ("Scheduler"). The purchase price included the issuance of 1,049,488 Posera-HDX common shares with a fair-value of $0.23 cents, which are subject to a 13 month hold period.

*(b) Stock options and stock-based compensation*

Since 2002, the Company has had a stock option plan ("the Old Plan") to encourage ownership of the Company's Common Shares by its key officers, directors, employees and consultants. The maximum number of Common Shares that may be reserved for issue under the Old Plan is 2,000,000 Common Shares. Options under the Old Plan vest over various periods from the date of the granting of the option. All options granted under the Old Plan that have not been exercised within ten years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company. The majority of options granted under the Old Plan were granted to former executives of the Company.

On September 20, 2011, the shareholders of the Company approved a new stock option plan (the "Plan"). The Plan has a rolling maximum number of Common Shares that may be issued upon the exercise of stock options, but shall not exceed 10% of the issued and outstanding Common Shares at the time of grant. Any increase in the total number of issued and outstanding Common Shares will result in an increase in the available number of options issuable under the Plan, and any exercises of options will make new grants available under the Plan. Options under the Plan vest over various periods from the date of the granting of the option. All options granted under the Plan that have not been exercised within ten years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company. The Plan was established on July 31, 2007, and reapproved on September 20, 2011 was enacted to encourage ownership of the Company's Common Shares by its key officers, directors, employees and consultants.

The Company does not have any current intention to convert the options outstanding under the Old Plan into options under the Plan. The Company intends to maintain the Old Plan in place until all outstanding options under the Old Plan are exercised or have expired, at which time the Old Plan will terminate. The Company will not grant any new options under the Old Plan.

**(in Canadian dollars, except as noted)**

## 20. SHARE CAPITAL (*continued*)

The following is a summary of the stock options granted and changes for the years then ended.

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Number Outstanding | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| **Options outstanding, beginning of the year** | **3,344,593** | **$ 0.52** | **3,633,573** | **$ 0.46** |
| Granted – employees and directors | 1,604,656 | 0.25 | 637,563 | 0.34 |
| Granted – consultants and brokers | 250,000 | 0.28 | - | - |
| Exercised – employees and directors | - | - | (926,543) | (0.13) |
| Expired – broker compensation | (552,665) | (0.45) | - | - |
| Expired – employees and directors | (15,000) | (0.83) | - | - |
| **Options outstanding, end of the year** | **4,631,584** | **$ 0.42** | **3,344,593** | **$ 0.52** |
| **Options exercisable, end of the year** | **4,266,584** | **$ 0.44** | **3,144,593** | **$ 0.53** |

The following table summarizes information about options outstanding as at;

December 31, 2012

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number of options outstanding | Weighted average life (years) | Weighted average exercise price | Number of options exercisable | Weighted average exercise price |
| 0.25 | 1,784,338 | 4.17 | 0.25 | 1,544,338 | 0.25 |
| 0.28 | 250,000 | 4.50 | 0.28 | 125,000 | 0.28 |
| 0.30 | 483,333 | 2.56 | 0.30 | 483,333 | 0.30 |
| 0.34 | 637,563 | 3.70 | 0.34 | 637,563 | 0.34 |
| 0.40 | 290,304 | 2.91 | 0.40 | 290,304 | 0.40 |
| 0.50 | 400,000 | 2.91 | 0.50 | 400,000 | 0.50 |
| 0.94 | 762,596 | 0.39 | 0.94 | 762,596 | 0.94 |
| 2.00 | 12,050 | 0.49 | 2.00 | 12,050 | 2.00 |
| 2.70 | 11,400 | 2.08 | 2.70 | 11,400 | 2.50 |
| | **4,631,584** | **3.13** | **$0.42** | **4,266,584** | **$0.44** |

December 31, 2011

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number of options outstanding | Weighted average life (years) | Weighted average exercise price | Number of options exercisable | Weighted average exercise price |
| 0.25 | 179,682 | 3.38 | 0.25 | 179,682 | 0.25 |
| 0.30 | 483,333 | 3.56 | 0.30 | 483,333 | 0.30 |
| 0.34 | 637,563 | 4.71 | 0.34 | 637,563 | 0.34 |
| 0.40 | 290,304 | 3.91 | 0.40 | 290,304 | 0.40 |
| 0.45 | 552,665 | 0.32 | 0.45 | 552,665 | 0.45 |
| 0.50 | 400,000 | 3.86 | 0.50 | 200,000 | 0.50 |
| 0.83 | 15,000 | 0.20 | 0.83 | 15,000 | 0.83 |
| 0.94 | 762,596 | 1.39 | 0.94 | 762,596 | 0.94 |
| 2.00 | 12,050 | 1.48 | 2.00 | 12,050 | 2.00 |
| 2.70 | 11,400 | 3.03 | 2.70 | 11,400 | 2.50 |
| | **3,344,593** | **2.78** | **$0.52** | **3,144,593** | **$0.53** |

**(in Canadian dollars, except as noted)**

## 20. SHARE CAPITAL (*continued*)

Of the options outstanding and exercisable as at December 31, 2012 nil (2011 – 552,665) options with an exercise price of $0.45 are broker compensation options, and as such are not factored into the 10% threshold as per the Plan discussed above. Additionally, of the options outstanding as at December 31, 2012 250,000 (2011 – nil) with an exercise price of $0.28, of which 125,000 are exercisable as at December 31, 2012 (2011 – nil), are consultant compensation options

For the year ended December 31, 2012, the Company recognized an expense of $242,982 (2011 – $176,469) for the vesting of options issued to directors, officers, and employees, which is included in Operating Expenditures.

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for options granted in the respective period ended:

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Risk-free rate of return | 1.18% | 2.07% |
| Expected volatility (i) | 110% | 105% |
| Dividend yield | -% | -% |
| Weighted average expected life | 5 years | 5 years |
| Estimated forfeiture rate | 0 - 5% | 0 - 5% |

*(i) The Company estimated the expected volatility on the date of grant through reference to the historical volatility of the Company's shares over a similar period.*

*(c) Contributed Surplus*

The following is a continuity schedule of contributed surplus.

| | |
|---|---|
| **Balance January 1, 2011** | **$ 5,752,901** |
| Stock-based compensation expense recognized during the year | 176,469 |
| Exercise of options | (308,423) |
| **Balance December 31, 2011** | **$ 5,620,947** |
| Stock-based compensation expense recognized during the year | 242,982 |
| Expiry of warrants net of tax effect of $101,624 (2011 - $nil) (Note 19(d)) | 665,349 |
| **Balance December 31, 2012** | **$ 6,529,278** |

*(d) Warrants*

The warrants outstanding are as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Number of Warrants | Carrying value | Number of Warrants | Carrying value |
| Outstanding share purchase warrants to purchase Common Shares at $0.65 per share. The warrants expired unexercised on April 27, 2012 | Nil | $ Nil | 5,526,546 | $ 766,973 |
| **Total** | **Nil** | **$ Nil** | **5,526,546** | **$ 766,973** |

## *20. SHARE CAPITAL* (*continued*)

*(e) Loss per share*

The Company uses the treasury stock method of calculating the dilutive effect of options and warrants on loss per share. Stock Options, Broker Compensation options, Warrants and Convertible debenture are only included in the dilution calculation if the exercise price is below the average market price for the period. The following is a summary of stock options, broker compensation options, convertible debenture and warrants:

| | Exercise price | Expiry | Number issued and outstanding | Number with dilutive impact | Number with anti-dilutive impact |
|---|---|---|---|---|---|
| Stock options | Note 20(b) | Note 20(b) | 4,631,584 | - | 4,631,584 |
| Convertible debenture | $0.65 | May 5, 2012 | - | - | - |
| Broker options | $0.45 | April 27, 2012 | - | - | - |
| Warrants | $0.65 | April 27, 2012 | - | - | - |

A reconciliation of basic to dilutive weighted average number of shares follows:

| (in 000's) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Basic weighted average number of shares | 48,434 | 45,951 |
| Dilutive impact of in-the-money options | - | 30 |
| **Dilutive weighted average number of shares** | **48,434** | **45,981** |

## 21. RELATED PARTY TRANSACTIONS

The Company recognized revenue from a company controlled by the CEO, who is also a director of the Company, during the year ended December 31, 2012, based on amounts agreed upon by the parties, in the amounts of $60,025 (2011 - $56,614). The Company recognized operating expenses related to shared office space and employees, and purchased products of $471,764 during the year ended December 31, 2012 (2011 - $385,805) from a Company controlled by the CEO at the exchange amount based on amounts agreed to by the parties. As at December 31, 2012, the Company has a receivable position of $12,133 (December 31, 2011 - $21,066), and a payable of $173,254 (December 31, 2011 - $60,632), which will be settled between the related parties in the normal course of business.

During the year ended December 31, 2012, the Company received legal fees and disbursement invoices totaling $63,589 (2011 - $381,685) to a law firm, a partner of which is a director of the Company. As at December 31, 2012, the Company has a payable position of $55,159 (December 31, 2011 - $277,747) which will be settled between the related parties in the normal course of business.

<u>Compensation of key management</u>

Compensation awarded to key management includes the Company's directors, and members of the Executive team, which include the Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer and Senior Vice-President of Corporate Development, is as follows:

**(in Canadian dollars, except as noted)**

## 21. RELATED PARTY TRANSACTIONS (*continued*)

| | Year ended December 31, 2012 | Year ended December 31, 2011 |
|---|---|---|
| Salaries and short-term employee benefits | $ 922,381 | $ 864,414 |
| Share-based payments | 185,691 | 170,469 |
| **Total** | **$ 1,108,072** | **$ 1,034,883** |

## 22. FINANCIAL INSTRUMENTS

The fair value of the financial assets and liabilities, excluding notes payable approximate their carrying value as at December 31, 2012 and December 31, 2011. The fair value of the note payables is disclosed in Note 16. Fair value estimates are made at a specific point in time based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The fair-value estimates for notes payable utilized a discounted cash-flow valuation method, with an estimated discount rate of 9.50% as at December 31, 2012 (December 31, 2011 – 9.50%). Changes in assumptions could materially affect estimates.

The Company's financial instruments have been summarized below:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Financial assets | | |
| Loans and receivables | $ 6,561,011 | $ 7,647,668 |
| Financial liabilities | | |
| Fair value through profit and loss | - | 35,556 |
| Other financial liabilities | 4,237,369 | 4,733,329 |

## 23. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact of the Company's financial instruments are summarized below.

*a) Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and, accounts receivable in the aggregate amount of $4,169,343 as at December 31, 2012 (2011- $5,673,079). Cash and cash equivalents are held with certain Canadian and European financial institutions. The Company has adopted a credit policy under which the balance of new customers are analyzed individually for creditworthiness

**(in Canadian dollars, except as noted)**

## 23. FINANCIAL RISK FACTORS (*continued*)

before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers are primarily located in Canada, the United States, France and the United Kingdom. The Company has no significant concentration of receivables, which would result in unusual credit risk exposure.

No financial assets are past due except for trade receivables. As at December 31, 2012, trade receivables of $1,799,882 (December 31, 2011 - $1,791,674) were current and not impaired, $1,319,020 (December 31, 2011 - $1,446,125) were past due but not impaired and $64,294 (December 31, 2011 - $146,968) were impaired.

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Balance – Beginning of year** | **$ 146,968** | **$ 67,981** |
| Receivables written off as uncollectible | (168,950) | - |
| Net provision for impairment | 86,276 | 78,987 |
| **Balance – End of year** | **$ 64,294** | **$ 146,968** |
| Accounts receivable – gross | **3,183,196** | **3,388,327** |
| **Accounts receivable – net** | **$ 3,118,902** | **$ 3,241,359** |

*b) Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations when due through periodic monitoring of working capital balances. As at December 31, 2012, the Company had a cash balance of $1,050,441 (2011 - $2,431,720) and other current assets of $5,671,104 (2011 - $5,580,435) to settle current liabilities of $5,684,519 (2011- $5,156,738). All of the Company's current financial liabilities have contractual maturities that range between 30 and 90 days and are subject to normal trade terms excluding vehicle loans and notes payable disclosed separately in Note 16 and Note 17 respectively. The following are the commitments to be settled in cash. The amounts presented represent the future undiscounted principal and interest cash flows, with the exception of the royalty payable which is discounted due to the nature of the liability, and therefore do not equate to the carrying amounts on the consolidated statement of financial position.

| | 2013 | 2014 | 2015 | 2016 | 2017 and thereafter | Total |
|---|---|---|---|---|---|---|
| Bank indebtedness (Note 12) | $ 256,784 | $ - | $ - | $ - | $ - | $ 256,784 |
| Accounts payable and accrued liabilities (Note 13) | 2,787,688 | - | - | - | - | 2,787,688 |
| Income taxes payable (Note 19) | 335,973 | - | - | - | - | 335,973 |
| Vehicle loan (Note 17) | 11,144 | 11,144 | 8,442 | 2,392 | - | 33,122 |
| Provisions (Note 14) | 210,000 | - | - | - | - | 210,000 |
| Royalty payable (Note 15) | 3,110 | 9,080 | 20,590 | 24,040 | 65,352 | 122,172 |
| Note payable (Note 16 and 28) | 590,429 | 386,928 | 165,697 | - | - | 1,143,054 |
| Operating leases | 359,458 | 236,672 | 182,219 | 27,549 | - | 805,898 |
| **Total** | **$ 4,554,586** | **$ 643,824** | **$ 376,948** | **$ 53,981** | **$ 65,352** | **$ 5,694,691** |

## 22. FINANCIAL RISK FACTORS (*continued*)

*c) Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign currency risk.

*i) Interest rate risk*

The Company has cash balances and interest-bearing debt. The Company holds cash and cash equivalents in deposit with certain Canadian and European financial institutions. The Company also holds notes payable, with largely fixed interest rates. The Corporation is sensitive to changes in the prevalent interest rates through interest income earned on its cash balance and interest paid on its notes payable. Interest rate risk is low as the interest rates on the Company's certificates of deposits, and notes payable are largely fixed. Interest rates and maturity dates for the Company`s certificates of deposits are disclosed in Note 4. The interest rates and maturity dates for the notes payable are disclosed in Note 16.

*ii) Foreign currency risk*

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the USD, GBP and the Euro.

A $0.05 strengthening of the CDN dollar compared to the USD, holding all other variables constant, would increase net income by $60,000 (December 31, 2011 – $31,000), and decrease comprehensive income by $30,000 (December 31, 2011 - $41,000). The Company has elected to not actively manage this exposure at this time.

A $0.05 strengthening of the CDN dollar compared to the GBP pound, holding all other variables constant, would increase net income by $2,000 (December 31, 2011 - $1,000), and increase comprehensive income by $2,000 (December 31, 2011 – decrease of $3,000). The Company has elected to not actively manage this exposure at this time.

A $0.05 strengthening of the CDN dollar compared to the EUR euro, holding all other variables constant, would increase net income by $1,000 (December 31, 2011 – decrease of $2,000), and decrease comprehensive income by $14,000 (December 31, 2011 - $17,000). The Company has elected to not actively manage this exposure at this time.

A $0.05 strengthening of the CDN dollar compared to the SGD dollar, holding all other variables constant, would increase net income by $5,000 (December 31, 2011 – $nil), and increase comprehensive income by $8,000 (December 31, 2011 - $nil). The Company has elected to not actively manage this exposure at this time.

**(in Canadian dollars, except as noted)**

## 24. EXPENDITURES BY NATURE

The following is a reconciliation of expenditures by function to expenditures by nature:

| **Presentation by Nature** | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Salaries, wages and other employee benefits | $ 8,713,781 | $ 8,349,907 |
| Changes in inventories of finished goods | 3,794,665 | 4,339,804 |
| Impairment | 2.419,864 | - |
| Amortization | 1,458,754 | 1,326,443 |
| Office and utilities | 1,190,343 | 883,923 |
| Professional and regulatory fees | 839,870 | 829,600 |
| Rent | 876,917 | 742,688 |
| Travel, meals and entertainment | 787,779 | 670,346 |
| Advertising | 360,732 | 327,838 |
| Outside service | 317,461 | 312,626 |
| Provision for penalties (Note 14) | 210,000 | - |
| Stock-based compensation | 175,691 | 176,469 |
| Insurance | 105,863 | 146,839 |
| Bad debt | 86,276 | 144,993 |
| Other expenditures (recoveries) | 109,092 | (102,635) |
| **Total** | **$ 21,447,088** | **$ 18,148,841** |
| **Presentation by Function** | | |
| Cost of inventory | $ 3,794,900 | $ 4,327,856 |
| Technology | 1,888,403 | 1,347,088 |
| Operations and support | 4,756,107 | 4,662,800 |
| Sales and marketing | 3,314,850 | 2,981,107 |
| General and administrative | 5,272,964 | 5,029,990 |
| Impairment of assets | 2,419,864 | - |
| **Total** | **$ 21,447,088** | **$ 18,148,841** |

## 25. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets to reduce debt or issue new debt.

The Company monitors capital on the basis of the debt to equity ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as the sum of bank indebtedness, and current and long-term notes payable and vehicle loans as shown in the consolidated statements of financial position. Total equity is the equity attributable to owners of the Company plus the conversion option in the consolidated statements of financial position.

**(in Canadian dollars, except as noted)**

## 25. CAPITAL MANAGEMENT *(continued)*

The debt to equity ratios as at December 31, 2012 and December 31, 2011 were as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| *Total Debt* | | |
| Notes payable | $ 979,519 | $ 1,275,556 |
| Vehicle loans | 31,206 | 67,875 |
| Bank indebtedness | 256,784 | 181,746 |
| **Total Debt** | **$ 1,267,509** | **$ 1,525,177** |
| *Equity* | | |
| Equity attributable to owners of the Company | $ 9,487,018 | $ 14,165,125 |
| Conversion Option | - | 35,556 |
| **Total Equity** | **$ 9,487,018** | **$ 14,200,681** |
| **Debt to Equity Ratio** | **13.35%** | **10.74%** |

## 26. CHANGES IN WORKING CAPITAL ITEMS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Restricted cash | $ - | $ 208,946 |
| Accounts receivable | 141,959 | (331,682) |
| Holdback on sale of Dexit | 200,000 | (200,000) |
| Investment tax credits and investment credits receivable | (642,007) | (297,295) |
| Income taxes payable | 303,935 | (11,262) |
| Lease receivable | 24,840 | (13,135) |
| Inventory | (2,289) | 59,281 |
| Prepaid expenses and deposits | (36,411) | (3,400) |
| Accounts payable and accrued liabilities | 79,016 | (13,207) |
| Customer liabilities | - | (180,593) |
| Deferred revenue | 243,330 | 218,900 |
| **Total** | **$ 312,373** | **$ (563,447)** |

**(in Canadian dollars, except as noted)**

## 27. SEGMENTED INFORMATION

The Company is divided into two reportable segments: Direct POS; POS Software, with other segments not meeting the aggregation criteria being grouped into other. The Direct POS segment focuses primarily on selling, installing and servicing POS hardware and software directly to end-users. The POS Software segment focuses primarily on developing, licensing, distributing and marketing POS software both directly to end-users, and indirectly through a dealer network. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on the profit and loss from operations before income taxes, amortization, interest, realized and unrealized foreign exchange gains or losses, other gains or losses and other comprehensive income. The Company manages each segment separately and management at the time of the acquisitions were retained. Certain segmented information relating to goodwill is provided in Note 11.

**Disclosure by Segment**

| | Revenue for the period ended | | Operating profit for the period ended (i) | |
|---|---|---|---|---|
| | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| Direct POS | $ 8,765,669 | $ 9,411,033 | $ 504,118 | $ 680,737 |
| POS Software | 7,760,500 | 8,358,616 | 65,955 | 1,166,366 |
| Other | 11,731 | 58 | (475,822) | (16,124) |
| Intersegment - POS Software | (91,794) | (69,936) | - | - |
| **Total** | **$ 16,446,106** | **$ 17,699,771** | **$ 94,251** | **$ 1,830,979** |

(i) Operating profit is earnings before corporate headquarters operating expenditures, interest earnings and expense, taxes, amortization, foreign exchanges losses and gains and realized currency translation gains and losses.

Reconciliation between the total consolidated operating profit and the net income(loss) per the consolidated financial statements is as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Total segmented operating profit | $ 94,251 | $ 1,830,979 |
| Corporate headquarter operating expenditures | (1,216,616) | (1,134,235) |
| Other non-operating expenditures | (3,670,859) | 789,152 |
| **Net (Loss) Income** | **$ (4,793,224)** | **$ 1,485,896** |

**(in Canadian dollars, except as noted)**

## 27. SEGMENTED INFORMATION *(continued)*

| | Direct POS | POS Software | Other | Intersegment elimination | **Total consolidated** |
|---|---|---|---|---|---|
| | | December 31, 2012 | | | |
| Total Assets | $ 6,639,005 | 10,161,048 | 452,088 | (8,016) | **$ 17,244,125** |
| Total Liabilities | $ 3,117,663 | 4,522,836 | 124,624 | (8,016) | **$ 7,757,107** |
| | | December 31, 2011 | | | |
| Total Assets | $ 10,541,309 | 11,249,954 | 501,824 | (14,614) | **$ 22,278,473** |
| Total Liabilities | $ 3,460,108 | 4,600,038 | 67,816 | (14,614) | **$ 8,113,348** |

**Disclosure by Territory**

| | Revenue for the period ended | | Operating profit for the period ended [1] | |
|---|---|---|---|---|
| | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2010 |
| Canada | $ 10,485,243 | $ 11,544,148 | $ 831,953 | $ 1,831,301 |
| USA | 3,430,513 | 3,370,380 | (665,343) | (97,079) |
| Europe | 2,108,043 | 2,121,588 | (13,059) | 118,021 |
| Asia and others | 422,307 | 663,655 | (59,300) | (21,264) |
| **Total** | **$ 16,446,106** | **$ 17,699,771** | **$ 94,251** | **$ 1,830,979** |

| | Canada | USA | Europe | Asia | **Total** |
|---|---|---|---|---|---|
| | | December 31, 2012 | | | |
| Total Assets | $ 14,579,416 | 1,908,884 | 755,464 | 361 | **$ 17,244,125** |
| Total Liabilities | $ 6,024,160 | 1,319,894 | 363,379 | 49,674 | **$ 7,757,107** |
| | | December 31, 2011 | | | |
| Total Assets | $ 18,238,937 | 3,035,815 | 978,857 | 24,864 | **$ 22,278,473** |
| Total Liabilities | $ 6,047,531 | 1,574,871 | 467,502 | 23,444 | **$ 8,113,348** |

## 28. SUBSEQUENT EVENTS

The loan from the prior Posera shareholders as disclosed in Note 16, with a nominal interest rate of 5.00%, due in full on April 30th 2013 was restructured by the Company on February 25, 2013. The terms of the restructuring adjust the payment terms to pay the Posera shareholders $33,633 per month commencing June 1, 2015 until fully paid, while the interest rate remains unadjusted.