



2011 1<sup>st</sup> Quarter Report



# Our Mission

**Changing the face of automotive retail through technology.**

At Quorum, our mission is to be the very best at building and supporting the most advanced automotive Dealership & Customer Relationship Management System, and technology infrastructure, in the automotive industry to enable dealerships to streamline their operations and better serve their customers.

## Our Values

### Integrity

While our abilities are considerable, we will be realistic, honest and fair in our commitments, and above all, we will follow through.

### Respect

Our customers and our people are our greatest resources; we encourage, listen to, and value their contributions.

### Excellence

We set high standards, strive for continuous improvement in everything we do, and we exceed expectations.

### Knowledge

Understanding our customers' business processes, and the technology that supports them, is our focus.

### Empowerment

We empower our people with the resources needed to promote innovation and fresh thinking.

### Teamwork

Our success is the result of teamwork. We operate with the highest level of cooperation and trust, and will share objectives between departments.

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# President's Message



*Quorum is both an Integrated Dealership Management System (IDMS) strategic partner with General Motors Corporation (GM) and an industry partner with Microsoft. Quorum's XSELLERATOR™ product is broadly promoted to our target dealerships throughout North America by these prominent companies.*

Both 2009 and 2010 were difficult years in the automotive industry. For Quorum, the turmoil in these years included:

- The bankruptcy and recovery of GM, our most significant partner.
- 42% of GM's North American franchised dealerships losing their franchises.
- The loss of 26 of our customers that were forced to close their dealerships.
- The transformation of 28 of our customers as they moved away from GM to new OEM's or aftermarket organizations.

The result was further diversification of Quorum's business and now 25% of our customers operate non-GM franchised dealerships (up from 10% at the beginning of 2009). The Corporation has changed strategically; we are now an "all makes" organization, but with a continued key emphasis on GM dealerships. Quorum supplies our product to GM, Isuzu, Chrysler, Hyundai, Kia, Nissan, Subaru, Saab, NAPA and Bumper to Bumper franchised dealership customers.

During 2009 and 2010, Quorum management focused on reducing our cost structure. The result was that Quorum posted six consecutive quarters of cash flow positive results from Q3 FY2009 to Q4 FY2010. I am delighted to report that we have added to that streak by posting our seventh consecutive cash flow positive quarter in Q1 FY2011. These continued positive cash flow results allowed us to pay off our 12% secured convertible debenture on December 15, 2010, four months prior to the debenture's maturity date of April 15, 2011. The Corporation now has a history of fiscal responsibility that we will build on into the future.

In Q1 FY2011 we had six dealership rooftop installs and our customer base grew to 245 active dealership rooftops. The new challenge for the Corporation is to work towards increasing our implementation rate each quarter.

Key financial results summary:

- Sales decreased slightly by 2% to \$1,912K in Q1 FY2011 from \$1,946K in Q1 FY2010 and margin after direct costs decreased to \$1,065K in Q1 FY2011 compared to \$1,076K in Q1 FY2010, a 1% decrease. The change in sales is due to:
  - o A decrease of \$119K in net new revenue which was a result of completing six installations in Q1 FY2011 down from ten installations in Q1 FY2010.
  - o An increase of \$166K in recurring support revenue as a result from having 245 active dealership rooftops at the end of Q1 FY2011 versus 221 at the end of Q1 FY2010.
  - o A decrease in integration revenue of \$80K due to a reduced number of GM integration projects.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to \$323K in Q1 FY2011 from \$297K in Q1 FY2010.
- Net income before taxes increased to \$102K in Q1 FY2011 compared to a loss of \$35K in Q1 FY2010. The increase was due to a continued effort to reduce the Corporation's cost structure and reduced interest expense. Management continues to optimize all business processes in the

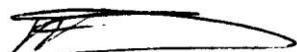
organization with the goal of continually reducing our cost structure. Interest was reduced due to the early repayment of the Corporation's 12% secured convertible debenture on December 15, 2010.

- Quorum had a net loss of \$100K in Q1 FY2011 compared to a net loss of \$28K in Q1 FY2010. The loss in Q1 FY2011 is due to a \$202K non-cash future income tax expense.

### Conclusion

With a stronger balance sheet; an incredible product; excellent implementations and support services; exceptional staff and customers; and seven consecutive quarters of cash flow positive operations; the Corporation is well positioned to take advantage of the challenging automotive market. Our primary focus for 2011 is to grow our quarterly sales and implementation rates.

My sincere appreciation is extended to Quorum's Board of Directors and to our employees and consultants who have been diligent and dedicated in their support of the Corporation's goals and objectives. My thanks also extend to our investors for their long-term and continued support of Quorum.



**Maury Marks**  
President & Chief Executive Officer

### Financial Highlights

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
<b>Gross revenue</b>	\$ 1,912,268	\$ 1,945,599
Direct costs	847,575	869,169
<b>Margin after direct costs</b>	<b>1,064,693</b>	1,076,430
Earnings before interest, taxes and amortization (EBITDA)	322,757	296,777
<b>Net income (loss) before deferred income tax</b>	<b>101,757</b>	(34,898)
<b>Net loss</b>	<b>(100,177)</b>	(28,032)
Basic loss per share	(0.0025)	(0.0007)
Fully diluted loss per share	\$ (0.0025)	\$ (0.0007)
<b>Weighted average number of common shares</b>		
Basic	39,298,438	39,298,438
Diluted	39,684,319	42,398,938
XSELLERATOR installations – in the period	6	10
XSELLERATOR active dealership rooftops	245	221

**Note:**

All 2010 figures have been restated in accordance with International Financial Reporting Standards

# Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Corporation's interim consolidated results of operations and financial condition. This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2011 and the audited annual consolidated financial statements of the Corporation for the year ended December 31, 2010 and the notes thereto. Comparisons made to prior periods are to the corresponding period in the preceding year unless otherwise indicated.

## Adoption of International Financial Reporting Standards ("IFRS")

Quorum's interim Consolidated Financial Statements and the financial information included in the interim MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are expected to be effective as at December 31, 2011, the date of the Corporation's first annual reporting under IFRS. Previously, the Corporation prepared its interim and annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Comparative information for years ending on or before December 31, 2009, has been prepared under Canadian GAAP and has not been restated under IFRS.

Note 4 to the interim condensed Consolidated Financial Statements contains a detailed description of the Corporation's adoption of IFRS, including a reconciliation of the Consolidated Financial Statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Statement of Financial Position at January 1, 2010 and at December 31, 2010;
- The Consolidated Statement of Comprehensive Income and Cash Flows for the three-month period ended March 31, 2010 and the year ended December 31, 2010; and
- The Consolidated Statement of Changes in Shareholders' Equity at March 31, 2010.

The most significant impacts of the adoption of IFRS, together with the details of the IFRS 1 exemptions taken, are described in the "Transition to IFRS" section on page 31 of this interim MD&A. The adoption of IFRS does not impact the underlying operations of Quorum's business or its cash flows.

## Background and Description of Business

Quorum Information Technologies Inc. ("Quorum" or the "Corporation") is an information technology company that focuses on the automotive retail business, and is incorporated under the Business Corporations Act of Alberta.

Quorum develops, markets, implements and supports its software product, XSELLERATOR™, a Dealership Management System (DMS) for the automotive market. The product is delivered to General Motors Corporation (GM), Chrysler, Hyundai, Isuzu, Kia, Subaru, NAPA and Bumper to Bumper dealerships throughout North America. The Corporation is an Integrated Dealership Management System (IDMS) strategic partner with GM and both a Gold-certified and a Managed Independent Software Vendor (ISV) partner with Microsoft. Quorum has a large opportunity with a market of approximately 4,000 dealerships across North America; to capitalize on this market Quorum has invested significant funds and resources.

## **Non-GAAP/IFRS Measures**

The accompanying interim condensed consolidated financial statements have been prepared in accordance with IFRS. Certain supplementary information and measures not recognized under IFRS or previous GAAP are also provided in this MD&A where management believes they assist the reader in understanding Quorum's results. These measures are calculated by Quorum on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

*EBITDA* – means net earnings before interest, taxes, amortization, foreign exchange gains and losses and stock-based compensation. EBITDA is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of the Corporation to generate cash from operations.

*Cash flow from operations* – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income or other measures of financial performance calculated in accordance with IFRS. Cash flow from operations assists management and investors in analyzing operating performance and leverage.

*Margin after direct costs* – means revenue less direct costs, which includes 3<sup>rd</sup> party costs and salaries and benefits of employees directly related to the activities that the Corporation generates revenue from. Management believes this metric provides a good measure of the operating performance of the product

## **Q1 FY2011 Overview**

Quorum's key to growing profits is having a critical mass of installed dealerships that supply a recurring revenue stream, along with a well-managed fixed and variable cost structure. The automotive market went through a sharp deterioration in late 2008 through to 2009 and is now working to recover. Sales decreased slightly by 2% to \$1,912K in Q1 FY2011 from \$1,946K in Q1 FY2010, and margin after direct costs decreased to \$1,065K in Q1 FY2011, as compared to \$1,076K in Q1 FY2010, a 1% decrease. The change in sales is due to:

- A decrease of \$119K in net new revenue which was a result of completing six installations in Q1 FY2011 down from ten installations in Q1 FY2010.
- An increase of \$166K in recurring support revenue as a result from having 245 active dealership rooftops at the end of Q1 FY2011 versus 221 at the end of Q1 FY2010.
- A decrease in integration revenue of \$80K due to a reduced number of GM integration projects.

Earnings before interest, taxes, depreciation and amortization increased to \$323K in Q1 FY2011 from \$297K in Q1 FY2010. Net income before taxes increased to \$102K in Q1 FY2011 compared to a loss of \$35K in Q1 FY2010. The increase was due to a continued effort to reduce the Corporation's cost structure and reduced interest expense. Management continues to optimize all business processes in the organization with the goal of continually reducing our cost structure. Interest was reduced due to the early repayment of the Corporation's 12% secured convertible debenture on December 15, 2010.

Quorum had a net loss of \$100K in Q1 FY2011 compared to a net loss of \$28K in Q1 FY2010. The loss in Q1 FY2011 is due to a \$202K non-cash future income tax expense.

The Corporation continues to invest significantly in the further development of its proprietary software product, XSELLERATOR. XSELLERATOR represents the "next generation" of Dealership Management Systems for the automotive market. New investment is now more focused on development that will grow market share, improve customer satisfaction, reduce support calls (and our cost of support), paid

integration work through the GM IDMS contract, other Original Equipment Manufacturing (OEM) integration work and third party company integration.

### Q1 FY2011 Financial Highlights

- 2% decrease in sales revenue from Q1 FY2010.
- 1% decrease in margin after direct costs from Q1 FY2010.
- 12% increase in on-going annuity XSELLERATOR software support and dealer services revenue over Q1 FY2010.
- 33% decrease in net new and migration revenue from Q1 FY 2010.
- 51% decrease in integration revenue from Q1 FY2010.
- Positive EBITDA (earnings before interest, taxes, depreciation and amortization) in Q1 FY2011 of \$323K versus a positive EBITDA in Q1 FY2010 of \$297K.
- Positive income before taxes of \$102K in Q1 FY2011 compared to a loss of \$35K in Q1 FY2010.
- Positive quarterly cash flow from operating activities of \$241K in Q1 FY2011 versus \$285K in Q1 FY2010.
- 2% increase in quarterly cash expenditures from Q1 FY2010.

### Results of Operations

(dollar figures in '000)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Gross revenue	\$ 1,912	\$ 1,946
Margin after direct costs	1,065	1,076
EBITDA expenses <sup>1</sup>	742	779
Operating income before interest, taxes, depreciation and amortization (EBITDA)	323	297
Net income (loss) before deferred income tax expense	102	(35)
Net loss	(100)	(28)
Net loss per share	(0.003)	(0.001)
Cash flow from operating activities	241	285
Cash expenditures (cash payments for operating and investing activities)	\$ 1,855	\$ 1,815
<b>KEY MANAGEMENT METRICS</b>		
XSELLERATOR installations – in the period	6	10
XSELLERATOR total active rooftops	245	221

**Note:**

All 2010 figures have been restated in accordance with International Financial Reporting Standards

<sup>1</sup> EBITDA Expenses include salaries and benefits, general and administrative and sales and marketing.

## Detailed Discussion on Operating Results for the Periods Ended March 31, 2011 and March 31, 2010

### Revenue and Margin After Direct Costs Analysis

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
<b>Gross revenue</b>	<b>\$ 1,912,268</b>	<b>\$ 1,945,599</b>
<b>3<sup>rd</sup> Party Costs (Direct)</b>	<b>342,745</b>	<b>375,229</b>
<b>Salaries and Benefits (Direct)</b>	<b>504,830</b>	<b>493,940</b>
<b>Margin after direct costs</b>	<b>\$ 1,064,693</b>	<b>\$ 1,076,430</b>
<b>Margin after direct costs %</b>	<b>56%</b>	<b>55%</b>
<b>KEY MANAGEMENT METRICS</b>		
XSELLERATOR installations – in the period	6	10
XSELLERATOR total active rooftops	245	221
<b>Support and other revenue</b>	<b>\$ 1,590,784</b>	<b>\$ 1,424,794</b>
<b>Net new and migrations</b>	<b>244,469</b>	<b>363,131</b>
<b>Integration</b>	<b>77,015</b>	<b>157,674</b>
<b>Gross revenue</b>	<b>\$ 1,912,268</b>	<b>\$ 1,945,599</b>

### Revenue

For Q1 FY2011, revenues from operations were \$1,912,268 compared to \$1,945,599 for Q1 FY2010, a decrease of \$33,331 or 2%. Quorum revenue results were as follows:

Recurring support and other revenue increased to \$1,590,784 in Q1 FY2011, compared to \$1,424,794 in Q1 FY2010, an increase of 12%. The Corporation completed six installations during Q1 FY2011, along with 28 installations in FY2010, with each now paying recurring monthly support and services fees. Quorum now has 245 active dealership rooftops utilizing XSELLERATOR. During Q1 FY2010, the Corporation completed ten installations. As our customer base grows, support and other revenue should continue to grow proportionately.

Integration revenue for Q1 FY2011 was \$0.08 million compared to \$0.16 million in Q1 FY2010. Currently Quorum is completing two integration projects, and two new integration projects are planned for the remainder of FY2011.

Migrations and net new revenue was \$0.24 million in Q1 FY2011 compared to \$0.36 million in Q1 FY2010. Net new revenue was \$0.24 million of the total for Q1 FY2011 compared to \$0.34 million of the total for Q1 FY2010. Migrations revenue was \$nil in Q1 FY2011 due to all current dealers having already been migrated.

### Direct Costs and Margin After Direct Costs

The direct costs include all costs related to implementations and support including 3<sup>rd</sup> party costs and all the implementation, migrations and support staff. For Q1 FY2011, margin after direct costs decreased to \$1,064,693 or 56% compared to \$1,076,430 or 55% for Q1 FY2010. Margin after direct costs decreased

due to a combination of higher margin recurring support revenues of \$1,590K in Q1 FY2011 compared to just \$1,425K in Q1 FY2010 as well as a decrease in integration, migration and net new revenue of \$199K compared to Q1 FY2010.

## Expenses

	Q1 Ended March 31, 2011	Q1 Ended March 31, 2010
Salaries and benefits <sup>2</sup>	\$ 395,386	\$ 429,265
Employee stock option benefits	17,585	34,728 <sup>3</sup>
General and administrative	280,693	292,623
Sales and marketing	65,857	57,764
<b>Total Expenses</b>	<b>\$ 759,521</b>	<b>\$ 814,380</b>

Total expenses before interest, taxes, amortization and foreign exchange for Q1 FY2011 were \$759,521 or 40% of sales compared to \$814,380 or 42% of sales for Q1 FY2010.

Salaries and benefits expenses for Q1 FY2011 were \$395,386 compared to \$429,265 in Q1 FY2010, a decrease of \$33,879 or 8%. This decrease is mainly due to the CFO taking a salary reduction due to a reduced work schedule throughout FY2010.

Employee stock option benefits expense for Q1 FY2011 was \$17,585 compared to \$34,728, as restated under IFRS in Q1 FY2010, a decrease of \$17,143 or 49%. The employee stock option expense is a non-cash expense.

General and administrative expenses for Q1 FY2011 were \$280,693 compared to \$292,623 for Q1 FY2010, a decrease of \$11,930 or 4%. This decrease is due to the concentrated effort of management to control and reduce operating costs.

Sales and marketing expenses for Q1 FY2010 were \$65,857 or 3% of sales compared to \$57,764 or 3% of sales for Q1 FY2010. The Corporation leverages significant benefit through IDMS-related press in key trade publications and through the GM corporate messaging systems.

## Foreign Exchange

The Corporation has a low exposure risk to realized foreign exchange gains and losses since a majority of its U.S. operations are performed through Quorum Information Technologies (US) Inc, Quorum's wholly-owned U.S. subsidiary. All transactions for this entity are performed in U.S. dollars. The Corporation does incur unrealized gains and losses on the conversion of the U.S. entity's net assets during consolidation for financial reporting. During the quarter, the Canadian/US exchange rate decreased from 0.9946 at December 31, 2010 to 0.9718 at March 31, 2011. This decline has had a direct impact on the Canadian dollar value of net assets held by Quorum in the U.S. The unrealized loss on the assets held was \$46,598 during Q1 FY2011 compared to a \$93,338 loss during Q1 FY2010. There was a realized foreign exchange loss of \$5,854 during Q1 FY2011 compared to a loss of \$435 during Q1 FY2010.

<sup>2</sup> Salaries and benefits are net of wage subsidy

<sup>3</sup> 2010 Employee stock option benefits expense has been restated in accordance with International Financial Reporting Standards.

## Capitalization & Amortization

During Q1 FY2011, the Corporation continued to invest significantly in the further development of its proprietary software product, XSELLERATOR. XSELLERATOR represents the “next generation” of Dealership Management Systems (DMS) in the automotive market, and is one of the most advanced, fully-integrated Windows-based products in the marketplace.

Summary of software development costs capitalized during the quarter and related amortization for XSELLERATOR:

	Q1 Ended March 31, 2011	Q1 Ended March 31, 2010
<b>Software development costs capitalized</b>	<b>\$ 221,957</b>	\$ 232,600
<b>Amortization of software development costs</b>	<b>\$ 111,082</b>	\$ 104,557 <sup>4</sup>

All research and development costs are expensed as incurred unless they satisfy the IFRS accounting criteria for deferral and subsequent amortization. As noted above, the Corporation continues to conduct ongoing research and development towards the improvement of XSELLERATOR and has capitalized payroll costs of \$188,237, net of \$16,390 of wage subsidies from the Newfoundland and Labrador government, and direct overheads of \$33,720 for a total of \$221,957 in Q1 FY2011 compared to capitalized payroll costs of \$187,941, net of \$15,900 ACOA funding and \$8,042 of wage subsidies from the Newfoundland and Labrador government and direct overheads of \$44,659 in Q1 FY2010 for a total of \$232,600.

XSELLERATOR is a leading-edge product in the automotive DMS field and the Corporation intends to maintain this lead through continued investment in the product. The Corporation has continued its development efforts as it prepares to roll out additional features and functionality and more and improved integration points with the manufacturers. The outlook is to maintain the level of investment for FY2011, with a continued focus on the development of XSELLERATOR as the premier DMS software that is scalable across all sizes of dealerships in the North American market and is available for all manufacturers and integrated to all key strategic third party companies in the marketplace.

Amortization on the software development costs for Q1 FY2011 increased to \$111,082 as compared to \$104,557 for Q1 FY2010, a \$6,745 increase. Under IFRS, the Corporation has changed its amortization policy estimate to ten-year straight line from the units of production method. Management feels that this amortization method is a more appropriate estimate that meets the IFRS guidelines and is more in line with industry standards.

<sup>4</sup> Amortization of software development costs for the three month period ending March 31, 2010 has been restated in accordance with International Financial Reporting Standards. Previously, in Q1 2010 under Canadian GAAP, amortization expense was \$63,020.

## Net Income, EBITDA and Earnings per Share

	FY 2011 March 31 Q1	FY 2010 March 31 Q1
<b>EBITDA</b>	\$ 322,757	\$ 296,778
<b>Net loss</b>	\$ (100,177)	\$ (28,032)
<b>Loss per share</b>		
- Basic	\$ (0.0025)	\$ (0.0007)
- Diluted	\$ (0.0025)	\$ (0.0007)
<b>Weighted average number of common shares</b>		
- Basic	39,298,438	39,298,438
- Diluted	39,694,819	42,398,938

EBITDA for Q1 FY2011 was \$322,757 or \$0.008 per share compared to \$296,778 or \$0.008 per share for Q1 FY2010. This is a \$25,979 increase from Q1 FY2010.

Net loss for Q1 FY2011 was \$(100,177) or \$(0.0025) per share, compared to net loss of \$(28,032) or \$(0.0007) per share for Q1 FY2010.

## Liquidity and Financial Resources

	March 31, 2011	December 31, 2010
<b>Current Assets</b>		
Cash	\$ 146,803	\$ 137,410
Accounts receivable	1,147,497	1,103,768
Inventory	6,893	8,553
Prepaid expenses	93,908	91,676
	<b>1,395,101</b>	<b>1,341,407</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	489,980	502,209
Deferred revenue	162,482	157,332
Current portion of long-term debt	45,209	41,557
	<b>697,671</b>	<b>701,098</b>
<b>Net working capital</b>	<b>\$ 697,430</b>	<b>\$ 640,309</b>

Net working capital at March 31, 2011 was \$697,430 with a current ratio of 2.00, compared to \$640,309 at December 31, 2010, with a current ratio of 1.91, an increase of \$57,121.

Current assets and current remained relatively consistent over the period.

## Cash Flows

The Corporation's cash balance increased by \$9,393 in Q1 FY2011 compared to an increase of \$40,856 in Q1 FY2010.

Cash flows from operating activities were \$240,994 in Q1 FY2011 compared to \$284,921 in Q1 FY2010. The positive result is due to the continued focus on cash management in all areas of the business, along with increased recurring cash being generated from the supports fees on new installations.

Cash flows relating to financing activities were \$(9,644) in Q1 FY2011 compared to \$(10,556) in Q1 FY2010. The loan payments made during the quarter were pursuant to the ACOA loan agreement entered

into in 2009. In Q1 FY2010, the Corporation made the final payment on the software license loan entered into in 2006.

The Corporation has a strong commitment to continually enhance and improve XSELLERATOR and invested \$221,957, net of wage subsidies from the Newfoundland and Labrador government, in product development in Q1 FY2011 compared to \$232,600 in Q1 FY2010.

### **Current Liabilities**

Accounts payable and accrued liabilities were \$489,980 at March 31, 2011 compared to \$502,209 at December 31, 2010 and \$655,346 at March 31, 2010. The decrease is due to the emphasis the Corporation has put on managing cash flow with a stronger purchasing process and better approval controls.

Repayment of a loan with the Atlantic Canada Opportunities Agency (ACOA) (described below) commenced on July 2, 2010. As of March 31, 2011, \$45,209 of the present value is due within the next 12 months. On a cash basis, \$99,996 is required to be repaid within the next 12 months.

Deferred revenue was \$162,482 at March 31, 2011 compared to \$157,332 at December 31, 2010. Under the GM IDMS contract, the Corporation's support billings are billed in advance. As of March 31, 2011, there was \$162,482 of support fees billed that relate to April 1-19th, 2011.

### **Long-Term Liabilities**

On March 31, 2009, the Corporation completed an agreement with the Atlantic Canada Opportunities Agency (ACOA) to provide a \$500,000 interest-free, unsecured loan to provide funding to develop version 4.7 of the XSELLERATOR system and to expand the office in St. John's, Newfoundland. As of December 31, 2010, \$500,000 was received. The ACOA loan is recognized as \$300,243 of which \$45,209 is current principal due within the next 12 months. The fair value is \$249,218 with accredited interest of \$68,151 and principal repayments of \$17,126. Repayment of the ACOA loan commenced on July 2, 2010 at \$8,333 per month, including accredited interest, over five years.

On December 15, 2010 the Corporation repaid in full a \$1.5 million secured convertible debenture ("the Debenture"). The Debenture was issued on April 15, 2008 and was secured by a fixed and floating charge on all assets of the Corporation. The Debenture incurred interest at a rate of 12% per annum, payable monthly in arrears, and was scheduled to mature April 15, 2011. The Debenture was convertible any time prior to maturity, at the Debenture holders' option, into common shares of Quorum Information Technologies Inc. at a price of \$0.55 per common share, equating to 2,727,272 common shares. In exchange for agreeing to the early retirement of the Debenture, the Corporation amended the warrants available to the Debenture holders. The exercise price of the warrants was reduced to \$0.18 per Quorum share from their original price of \$0.55. In accordance with the rules of the TSX Venture Exchange, the exercise period for the warrants will be reduced to 30 days in the event that for any ten consecutive trading days the closing price of Quorum common shares on the TSX Venture Exchange exceeds \$0.225.

During Q1 FY2011, interest on long-term debt was \$16,436 compared to \$74,104 in Q1 FY2010. The debt incurred cash interest of \$nil (\$47,569 in Q1 FY2010) and non-cash interest from loan accretion of \$16,436 (\$26,535 in Q1 FY2010). The decrease in cash and non-cash interest relates the retirement of the Debenture during FY2010.

During FY2009, Quorum entered into an agreement with Central Consulting Services Inc. to prepare the Scientific Research & Economic Development (SRED) claim for the years ending December 31, 2007, December 31, 2008, and December 31, 2009. The amount of \$73,159, recorded at a fair value of \$35,332, is not payable until the Corporation is in a position to utilize the SRED Investment Tax Credits

(ITCs). The Corporation does not expect to utilize those ITCs until at least the year ended December 31, 2015 as it will use its loss carry forwards and Capital Cost allowances in full before using the ITCs.

### **Share Capital**

There has been no change in the share capital of the Corporation since December 31, 2010. Note 14 of the March 31, 2011 unaudited consolidated financial statements of the Corporation provides further details on share capital.

During Q1 FY2011, the share price ranged from a high of \$0.16 and a low of \$0.10. The average share price over the period was \$0.14. In calculating the Earnings per share (EPS) and Fully diluted EPS, the options with an exercise price below the \$0.14 are considered. A total of 385,881 options with an exercise price of \$0.12 were included to create a fully diluted level of shares of 39,694,319. As of the date of this report, 3,727,281 options are outstanding.

### **Material Contracts & Commitments**

On March 11, 2011, the Corporation completed an agreement with the Newfoundland and Labrador Department of Business (“NL loan”), to provide funding, up to a maximum of \$500,000, to increase staffing levels in Newfoundland and Labrador and expand the office in St. John’s. The increase in the number of employees is required in order to achieve the high growth model that the Corporation has planned for 2011. A portion of the loan, \$172,000, will be forgivable to the Corporation dependent on the Corporation meeting certain requirements. The balance of the NL loan, \$328,000, is to be repaid over a four-year term starting in December, 2012.

On March 31, 2009, the Corporation completed an agreement with ACOA to provide \$500,000 of funding to develop version 4.7 of the XSELLERATOR system and to expand the office in St. John’s, Newfoundland. As of April 20, 2010, the full amount had been received by the Corporation. The ACOA loan is to be repaid with equal installments of \$8,333 over a five-year period. The first repayment amount was made in July 2010.

On June 7, 2007, the Corporation entered into a wage subsidy agreement with the provincial government of Newfoundland and Labrador. The agreement entitles the Corporation to an 8% subsidy of all gross payroll costs, including benefits, associated with Newfoundland and Labrador employees for a period of five years. The Corporation must maintain a minimum of 35 full-time positions during each reporting period to receive this subsidy. As of the date of this MD&A, 39 full-time positions were maintained by the Corporation in Newfoundland and Labrador.

Effective January 3, 2006 the Corporation was named an IDMS supplier on behalf of GM throughout North America. This contract required the Corporation to expand operations and capabilities to meet the requirements of an expanded North American customer base.

### **Off Balance Sheet Arrangements**

Other than the lease commitments noted in Note 17 of the March 31, 2011 unaudited consolidated financial statements, the Corporation has not entered into any off balance sheet arrangements.

### **Transition to IFRS**

Effective January 1, 2010, International Financial Reporting Standards replaced Canada’s current Generally Accepted Accounting Principles for all publicly accountable profit-oriented enterprises. The Corporation has adopted IFRS effective January 1, 2010 (“the transition date”) and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS, the Corporation prepared its financial statements in accordance with Canadian GAAP.

The Corporation's consolidated financial statements for the year ending December 31, 2011, will be the first annual financial statements that comply with IFRS. The Corporation will ultimately prepare its opening IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2011. Accordingly, the opening IFRS statement of financial position and the December 31, 2010, comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011, may differ from those presented at this time.

The Corporation has completed all three IFRS project phases and has successfully integrated IFRS into our day-to-day operations. The adoption of IFRS has not changed the strategy of Quorum nor has it impacted our underlying business activities. Overall, our cash flows have not been impacted by the transition.

#### *IFRS 1 – First-Time Adoption*

In preparing these consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards ("IFRS 1"), the Corporation has applied certain of the optional exemptions from full retrospective application of IFRS. Based on management's analysis of the various accounting policy choices available, the IFRS 1 optional exemptions applied are described below:

(i) Share-based payment transactions

The Corporation has elected to apply IFRS 2, "Share - based Payments" ("IFRS 2"), to equity instruments granted after November 7, 2002, which have not vested by the Transition Date. Accordingly, Management has elected not to restate the stock-based compensation expense for share based payments granted and vested prior to the Transition Date. Further, the Corporation changed its accounting policy with respect to stock-based compensation, effective January 1, 2010, for new issuances to comply with the IFRS guidelines under IFRS 2. The resultant change required the Corporation to account for an estimate of forfeitures at the time of grant and the associated compensation expense on a tranche by tranche basis.

(ii) Borrowing costs

IAS 23, "Borrowing Costs", has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is before January 1, 2010. Accordingly, the Corporation has not capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was before January 1, 2010.

(iii) Fair value or revaluation as deemed cost

IAS 16, "Property, plant, and equipment", allows for property and equipment to continue to be carried at cost less depreciation, same as under Canadian GAAP. Accordingly, the Corporation has elected to carry its property and equipment at historical cost less accumulated amortization.

#### Impact on Historical Key Performance Indicators previously reported under Canadian GAAP

The following table summarizes the impact of IFRS on certain key performance metrics monitored by Management for the year ended December 31, 2010, and the three months ended March 31, 2010, as prepared under Canadian GAAP and IFRS:

	Year Ended December 31, 2010		
	Canadian GAAP	IFRS	% Change
Income before taxes	\$ 354,061	\$ 259,133	(27%)
Net income	\$ 95,083	\$ 3,177	(97%)
	Three Months Ended March 31, 2010		
	Canadian GAAP	IFRS	% Change
Income before taxes	\$ 11,291	\$ (34,898)	(409%)
Net income (loss)	\$ 15,271	\$ (28,032)	(284%)

### Impact of IFRS Adoption on Significant Accounting Policies and Estimates

The Corporation's IFRS accounting policies are provided in Note 3 to the interim Consolidated Financial Statements. In addition, Note 4 to the interim Consolidated Financial Statements presents reconciliations between the Corporation's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Statements of Financial Position as at January 1, 2010, March 31, 2010 and December 31, 2010 and the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010

The following tables summarize the adjustments made to the Corporation's Statement of Financial Position and Statement of Comprehensive Income:

	December 31, 2010	March 31, 2010	January 1, 2010
Deficit as reported under Canadian GAAP	\$ (9,904,461)	\$ (9,984,273)	\$ (9,999,544)
IFRS adjustments increase (decrease):			
Stock-based compensation	(89,890)	(76,349)	(76,693)
Property and equipment	(14,593)	(15,304)	(15,541)
Software development costs	(4,753,501)	(4,717,592)	(4,670,822)
Deferred tax	1,321,536	1,321,400	1,318,514
	(3,536,448)	(3,487,845)	(3,444,542)
Deficit as reported under IFRS	\$ (13,440,909)	\$ (13,472,118)	\$ (13,444,086)

	Year Ended December 31, 2010	Three Months Ended March 31, 2010
Net income as reported under Canadian GAAP	\$ 95,083	\$ 15,271
IFRS adjustments increase (decrease):		
Stock-based compensation	(13,198)	342
Amortization of property and equipment	948	237
Amortization of intangibles	(82,678)	(41,774)
Foreign exchange loss	-	(4,994)
Deferred tax	3,022	2,886
	(91,906)	(43,303)
Net (loss) as reported under IFRS	\$ 3,177	\$ (28,032)

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's Statement of Financial Position is set out below, and is based on the standards as published on the Corporation's Transition Date. Accordingly, the opening IFRS Statement of Financial Position and the December 31, 2010 comparative Statement of Financial Position presented in the consolidated financial statements for the year ended December 31, 2011, may differ from those presented at this time.

#### *Stock-Based Compensation*

Under Canadian GAAP, the Corporation recognized stock-based compensation expense with graded vesting features on a straight line basis over the vesting period. Under IFRS, the Corporation is required to treat each "tranche" of a stock-based compensation arrangement as a separate grant which results in the recognition of compensation expense on an accelerated basis as compared to Canadian GAAP. Further, IFRS requires that an estimate of the number of awards expected to vest be accounted for at the date of the grant. As a result, this increased contributed surplus and increased deficit by \$0.08 million at the date

of transition and decreased employee stock option benefits expense by \$342 for the three months ended March 31, 2010, and increased by \$13,198 for the year ended December 31, 2010.

#### *Property and Equipment*

Under Canadian GAAP, the Corporation included vendor distribution rights in its property and equipment. IFRS requires that these items be shown as an intangible asset. The resulting change decreased property and equipment by \$15,541 and increased intangible assets by \$15,541 at the date of transition. Amortization of property and equipment expense decreased by \$237 for the three months ended March 31, 2010, and \$948 for the year ended December 31, 2010.

As well, under Canadian GAAP, IFRS permits items of property and equipment to be measured either at fair value or amortized cost. In this regard, the Corporation expects to continue to reflect property and equipment at its historic amortized cost. Further, IFRS requires that significant asset parts (i.e. components) are recognized and depreciated separately. The Corporation has assessed componentization under IFRS to be similar to how assets have been componentized by the Corporation and the impact on Quorum's Statement of Financial Position upon adoption of IFRS was \$nil.

#### *Software Development Costs*

Under Canadian GAAP, the Corporation amortized its software development costs using the units of production method. Under IFRS the Corporation will use a ten year, straight-line amortization method. Amortization of intangible assets expense increased by \$41,774 for the three months ended March 31, 2010, and \$82,678 for the year ended December 31, 2010.

#### *Deferred Income Taxes*

Under Canadian GAAP, the Corporation used the liability method of tax allocation for current and future income taxes. Under IFRS, a deferred tax asset is recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be generated to utilize these unused tax losses and unused tax credits. Based on current and forecasted taxable profits, the Corporation expects to use these losses and credits, so there has been no change in the carrying value of its deferred tax asset upon adoption of IFRS.

The conversion to IFRS has changed the deferred tax asset balance as a result of the new accounting values of the intangible assets. The deferred tax asset increased by \$1,318,514 as of the transition date.

#### *Impairment of Assets*

Under Canadian GAAP, intangible assets were recognized as one overall asset. Under IFRS, the intangible assets are broken down based on their cash generating units ("CGU") levels and tested for impairment on an annual basis. The Corporation has analyzed the intangible asset and it has been separated into three CGUs; General Motors ("GM") Canadian Dealerships, General Motors US Dealerships, and Other OEM Dealerships. Under IFRS, if the carrying value of each CGU exceeds the greater of the fair value less cost to sell or value in use, an impairment loss is recognized in the CGU. Based on the impairment test, software development costs for the General Motors US Dealerships, and the Other OEM Dealerships were impaired. As a result, the intangible asset balance in the GM US CGU was decreased by \$3,413,404 and the intangible asset balance in the Other OEM Dealerships CGU was decreased by \$1,272,959 for a total of intangible asset writedown of \$4,686,363 and a corresponding increase in the cumulative deficit of \$4,686,363 at the transition date. In addition, \$15,541 for Vendor Distribution rights was reallocated from Property and Equipment to Intangible Assets for a total Intangible Asset adjustment of \$4,670,822.

### *Internal Controls*

The conversion to IFRS does not have a significant impact on the Corporation's current control environment, business processes, financial systems or IT systems. There have been no significant changes in Quorum's internal control over financial reporting during the three-month period ended March 31, 2011, which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

### *Estimates and Judgments*

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the possible disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it is management's option that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in Quorum's consolidated financial statements are the impairment of intangibles, amortization of property and equipment and intangibles, deferred income taxes and stock-based compensation.

### **Future Accounting Pronouncements**

All accounting standards effective for periods beginning on or after January 1, 2011, have been adopted as part of the transition to IFRS. As of January 1, 2013, Quorum will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard is not expected to have a material impact on Quorum's Consolidated Financial Statements.

Amendments to IFRS 7, Financial Instruments: Disclosures – Transfer of Assets ("IFRS 7"), were issued in October 2010. Those amendments increase the disclosure requirements for transactions involving transfers of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Corporation does not anticipate that these amendments to IFRS 7 will have a significant effect on the Corporation's disclosures on financial assets.

### **Outlook**

The automotive dealership market has traditionally implemented older, character-based technology for its in-house systems. However, in recent years the auto manufacturers have worked towards developing numerous new electronic interfaces between their systems and the auto dealerships' systems. As a Windows-based, fully-integrated product, XSELLERATOR is one of the most technologically advanced software products in the DMS field, and as such, is able to implement the new electronic interfaces more quickly and effectively than its competitors that utilize older technology. The Corporation anticipates that there will be a considerable amount of demand from the auto dealership industry to upgrade to the latest technology, and for companies that utilize new technology in order to electronically interface with the auto manufacturers. This provides a unique opportunity for the Corporation to market its XSELLERATOR product both at the dealership and the manufacturer level.

The Corporation believes that its success depends largely upon the following factors:

- Financial health of the automotive industry including dealerships and manufacturers.
- Sales, installations and support of the Corporation's XSELLERATOR product.
- Continued enhancements and upgrades contained in the new version releases of the Corporation's proprietary software product, XSELLERATOR.
- The ability of the Corporation to attract and retain top quality people.
- The ability of the Corporation to attract and leverage quality business partners to help accelerate the Corporation's growth and penetration into the expanding marketplace.
- Development of business processes and standardization of those processes, to facilitate the implementation and support of XSELLERATOR on a global scale.
- Building and maintaining positive relationships with the automotive manufacturers, and in particular GM Canada and GM U.S. through the IDMS contract.
- Continued financial support from the Atlantic Canada Opportunities Agency (ACOA) and the Newfoundland and Labrador provincial government.
- Continued access to capital to fund growth and meet debt repayment obligations, which may not be able to be funded from internal sources.

Management expects sales from its suite of DMS software products will continue to grow over the next several years. Management is committed to enhancing its market share in the DMS software market in both Canada and the U.S. However, it is difficult to forecast the Corporation's sales and market share with precision due to factors such as: the nature of the automotive industry; acceptance of XSELLERATOR; the overall sales cycle; and the continued support of GM and approvals from other auto manufacturers.

### **Forward-Looking Statements**

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Corporation's actual results may differ materially from those anticipated in these forward-looking statements. Factors which may cause such differences include, but are not limited to those set forth under "Business Risks". The Corporation does not take any obligation to release any public information of the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances occurring in the future, except as required by securities regulations.

### **Business Risks**

The Corporation faces key risks, including adequacy of capital and/or cash flow to pursue its business plan objectives, reliance on relatively few key suppliers and customers, and the emergence of superior competing technologies. This list is not intended to be exhaustive, but merely to communicate to shareholders certain key risks faced by the Corporation in its business.

### **Liquidity Risk**

As discussed in the *Cash flow* section above, in April 2008 the Corporation issued the Debenture (\$1.5 million) to fund operations. The Debenture was secured by a fixed and floating charge on all assets and was convertible any time prior to maturity. The debenture was retired on December 15, 2010.

### **Customer Concentration Risk**

Although the Corporation has been expanding its coverage of various dealership brands, a significant portion of its business is conducted with General Motors Corporation and its dealerships in both Canada and the U.S. Prior to GM entering bankruptcy protection on June 1, 2009, over 90% of Quorum's 225 active dealership rooftops were GM dealerships. Currently approximately 75% of Quorum's 245 active dealership rooftops are GM dealerships.

Quorum's product strategy has moved to a much stronger focus on new OEM business partners, with the intention of expanding the system to support other makes. Over time, this strategy will continue to diversify our customer base; however, GM franchises will remain a key focus for the organization. It is important to Quorum's success for GM to continue to make significant progress on its North American and International business plan.

### **Server Reliability Risk**

Quorum's XSELLERATOR product operates on a server that is installed at the dealership. Server up-time, data backup, virus protection and disaster recovery are critical to our customers and Quorum. To ensure the highest level of continuity of service for our customers Quorum has deployed:

- Rigorous installation and migration procedures to ensure server consistency.
- Strong change control, including automated tools to manage many of our changes, on all dealership servers to maintain server consistency.
- Approved application lists and related controls, to ensure that applications follow a testing process before they are installed on dealership servers.
- Servers with both redundant hard drives and power supplies.
- Support agreements with our hardware providers to supply 24 hour support – 7 days a week. Typically the service agreements also have four hour response times.
- Web-based backup services that are monitored by a Server View application built by Quorum
- Anti-virus protection that is monitored by Server View.
- A disaster recovery environment located at Quorum's Calgary office. This is an optional service that dealerships can subscribe to.

Server downtime and lost data cost our customers in terms of lost productivity and will result in a financial impact to our customers. Although Quorum cannot guarantee continuity of service, we have taken numerous steps to help protect our customers.

Quorum attempts to mitigate these risks through various strategic and operating mechanisms such as ongoing research and development to maintain XSELLERATOR's position as one of the most advanced products in the automotive DMS field, fair and equitable compensation and workplace policies, flexibility in operational decision making, review and discussion of competitors' policies to maintain market advantage, and ongoing interaction with both debt and capital markets. Management believes these strategies reduce the Corporation's business risk to an acceptable level, which will allow the Corporation to continue to grow and maximize shareholder value.

Despite the Corporation's attempts to mitigate key risks, shareholders should be aware that the information technology industry is subject to rapid technological change, and the products and services provided by the Corporation are also expected to be subject to rapid technological changes. To remain competitive, the Corporation must be able to keep pace with the technological developments in this industry and change its product and service lines to meet new demands. The Corporation will depend on research and development for improvements and enhancements to XSELLERATOR, and the introduction of new products and services that have not been commercially tested to accelerate its future growth. The Corporation has a proven track record of success in innovative product design and enhancements, and has the expertise and the capital backing in place to continue it.



**Quorum Information Technologies Inc.**  
**Condensed Consolidated Statements of Financial Position (unaudited)**

As at		March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>				
<b>Current:</b>				
Cash		\$ 146,803	\$ 137,410	\$ 1,343,782
Accounts receivable		1,147,497	1,103,768	1,200,435
Inventory		6,893	8,553	2,377
Prepaid expenses		93,908	91,676	88,458
		<b>1,395,101</b>	1,341,407	2,635,052
Property and equipment	Note 5	230,995	246,904	319,607
Intangible assets	Note 6	4,300,600	4,189,945	4,084,313
Software licenses held for resale	Note 7	-	-	5,767
Deferred income tax asset		4,165,273	4,410,867	4,800,336
Investment tax credits	Note 13	2,821,642	2,821,642	2,477,564
		<b>\$ 12,913,611</b>	\$ 13,010,765	\$ 14,322,639
<b>LIABILITIES</b>				
<b>Current:</b>				
Accounts payable and accrued liabilities		489,980	502,209	488,055
Deferred revenue		162,482	157,332	229,698
Current portion of long-term debt	Note 9	45,209	41,557	27,940
Deferred government assistance	Note 11	-	-	15,900
		<b>697,671</b>	701,098	761,593
Long-term debt	Note 9	246,470	258,686	260,558
Provisions	Note 12	35,332	34,251	29,929
Convertible debenture	Note 10	-	-	1,377,883
		<b>979,473</b>	994,035	2,429,963
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	Note 14	23,399,937	23,399,937	23,399,937
Convertible debenture	Note 10	-	-	195,685
Contributed surplus	Note 16	2,075,287	2,057,702	1,741,140
Deficit		(13,541,086)	(13,440,909)	(13,444,086)
		<b>11,934,138</b>	12,016,730	11,892,676
		<b>\$ 12,913,611</b>	\$ 13,010,765	\$ 14,322,639

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Board:

(Maury Marks)

Director

Maury Marks  
President & CEO

(John Carmichael)

Director

John Carmichael  
Chairman of the Board of Directors

**Quorum Information Technologies Inc.**  
**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

Period ended	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
<b>Gross revenue</b>	<b>\$ 1,912,268</b>	<b>\$ 1,945,599</b>
3 <sup>rd</sup> Party Costs (Direct)	342,745	375,229
Salaries and Benefits (Direct)	504,830	493,940
<b>Margin after direct costs</b>	<b>1,064,693</b>	<b>1,076,430</b>
<b>Expenses</b>		
Salaries and benefits (Indirect)	436,424	470,046
Government assistance	(41,038)	(40,780)
Employee stock option benefits	17,585	34,728
General and administrative	280,693	292,623
Sales and marketing	65,857	57,764
Interest expense on long-term debt	16,436	74,104
Bank charges and other interest expense	7,358	2,899
Amortization of intangible assets	111,302	104,794
Amortization of property and equipment	15,866	19,935
Amortization of software licenses held for resale	-	1,442
Foreign exchange loss (gain)	52,453	93,773
<b>Total expenses</b>	<b>962,936</b>	<b>1,111,328</b>
<b>Net income (loss) before deferred income tax expense</b>	<b>101,757</b>	<b>(34,898)</b>
<b>Deferred income tax expense (recovery)</b>	<b>201,934</b>	<b>(6,866)</b>
<b>Net loss and comprehensive loss</b>	<b>(100,177)</b>	<b>(28,032)</b>
<b>Deficit, beginning of period</b>	<b>(13,440,909)</b>	<b>(13,444,086)</b>
<b>Deficit, end of period</b>	<b>\$ (13,541,086)</b>	<b>\$ (13,472,118)</b>
<b>Earnings (loss) per share</b>		
- Basic	\$ (0.0025)	\$ (0.0007)
- Diluted	\$ (0.0025)	\$ (0.0007)
<b>Weighted average number of common shares</b>		
- Basic	39,298,438	39,298,438
- Diluted	39,684,319	42,398,938

See accompanying notes to interim consolidated financial statements.

**Quorum Information Technologies Inc.**  
**Condensed Consolidated Statements of Changes in Equity (unaudited)**

Period ended	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
<b>Common shares</b>		
Balance, beginning of period	\$ 23,399,937	\$ 23,399,937
Stock options exercised	-	-
Balance, end of period	<b>23,399,937</b>	23,399,937
<b>Convertible debenture</b>		
Balance, beginning of period	-	195,685
Conversion of subordinate convertible debenture	-	-
Balance, end of period	-	195,685
<b>Contributed surplus</b>		
Balance, beginning of period	2,057,702	1,741,140
Stock options exercised	-	-
Stock-based compensation	17,585	34,727
Balance, end of period	<b>2,075,287</b>	1,775,867
<b>Deficit</b>		
Balance, beginning of period	(13,440,909)	(13,444,086)
Net loss for the period	(100,177)	(28,032)
Balance, end of period	<b>(13,541,086)</b>	(13,472,118)
<b>Total shareholders' equity</b>	<b>\$ 11,934,138</b>	<b>\$ 11,899,371</b>

See accompanying notes to interim consolidated financial statements.

**Quorum Information Technologies Inc.**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**

<b>Period ended</b>	<b>Three Months Ended March 31, 2011</b>	<b>Three Months Ended March 31, 2010</b>
<b>Cash flow from operating activities</b>		
Cash receipts from customers	\$ 1,873,689	\$ 1,866,211
Cash paid to suppliers and employees	(1,625,336)	(1,533,721)
Interest paid	(7,359)	(47,569)
	<b>240,994</b>	<b>284,921</b>
<b>Cash flow from financing activities</b>		
Repayment of long-term debt	(9,644)	(10,556)
	<b>(9,644)</b>	<b>(10,556)</b>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	-	(909)
Software development costs	(221,957)	(232,600)
	<b>(221,957)</b>	<b>(233,509)</b>
<b>Increase in cash</b>	<b>9,393</b>	<b>40,856</b>
<b>Cash, beginning of period</b>	<b>137,410</b>	<b>1,343,782</b>
<b>Cash, end of period</b>	<b>\$ 146,803</b>	<b>\$ 1,384,638</b>

See accompanying notes to interim consolidated financial statements.

## **1. Nature of Operations**

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Quorum Information Technologies Inc. (“Quorum” or the “Corporation”) is an information technology company that focuses on the automotive retail business in Canada and the U.S. and is incorporated under the Business Corporations Act of Alberta. Quorum develops, markets, implements and supports its own software product, XSELLERATOR™, a Dealership Management System, for the automotive market.

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## **2. Significant Accounting Policies and Basis of Presentation**

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### **a) Statement of compliance**

In 2010, the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”) was revised to incorporate International Financial Reporting Standards (“IFRS”) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian generally accepted accounting principles before the adoption of International Financial Reporting Standards.

These financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Corporation expects to adopt in its consolidated financial statements for the year ending December 31, 2011. These are the Corporation’s first consolidated financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Corporation, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010, is provided in note 4. The consolidated financial statements were authorized for issue by the Board of Directors on June 27, 2011.

### **b) Basis of measurement**

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

### **c) Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Gains and losses on translation of monetary items are recognized in the comprehensive income statement, except for those foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the

**2. Significant Accounting Policies and Basis of Presentation** *(continued)*

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foreign operation, are recognized in other comprehensive income in the cumulative translation account.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the statement of financial position date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI").

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**3. Summary of Accounting Policies**

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The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

**(a) Consolidation**

These consolidated financial statements include the accounts of the Corporation and its subsidiaries all of which are wholly-owned. All inter-company balances and transactions are eliminated on consolidation.

**(b) Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the weighted average cost basis. Inventory consists of goods for resale.

**(c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and line of credit.

**(d) Property and Equipment**

Property and equipment are recorded at cost, less accumulated amortization. One-half the normal amortization is taken in the year of acquisition. Amortization is provided using the following methods and rates:

Computer equipment	30%	declining balance
Computer software	100%	declining balance
Leasehold improvements	5 yrs	straight-line
Office equipment	20%	declining balance

Estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

The gain or loss arising on the disposal of property and equipment is determined as the difference between the proceeds and the carrying amount of the asset, and it recognized in profit or loss.

**3. Summary of Accounting Policies** *(continued)*

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**(e) Intangible Assets**

Intangible assets include internally developed software and vendor distribution rights, and are recorded at cost, less accumulated amortization. One-half the normal amortization is taken in the year of acquisition. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 6. Amortization is provided using the following methods and rates:

Software development costs	10 yrs	straight-line
Vendor distribution rights	7%	declining balance

Costs associated with maintaining computer software are expensed as incurred.

Expenditure on research (or the research phase of an internal project) is recognized as an expense in the period in which it is incurred.

Costs that are directly attributable to the development phase of new customized software for information technologies and telecommunications systems are recognized as intangible assets provided they meet the following recognition requirements:

- (i) Completion of the intangible assets is technically feasible so that it will be available for use or sale;
- (ii) The Corporation intends to complete the intangible asset and use or sell it;
- (iii) The Corporation has the ability to use or sell the intangible asset;
- (iv) The intangible asset will generate probably future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- (v) There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with any relevant and appropriate overheads. Internally generated software developments recognized as intangible assets are subject to the same subsequent measurement method as externally acquired software licenses. However, until completion of the development project, the assets are subject to impairment testing only as described below in note 6.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and it recognized in profit and loss.

### 3. Summary of Accounting Policies *(continued)*

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#### **(f) Impairment**

For the purposes of testing impairment, assets are grouped at the lowest levels for which there are largely independent cash in-flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of the fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of the cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Any impairment losses are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

#### **(g) Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Corporation and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Corporation can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

**3. Summary of Accounting Policies** *(continued)*

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Possible inflows of economic benefits to the Corporation that do not yet meet the recognition criteria of an asset are considered contingent assets.

**(h) Revenue Recognition**

The Corporation recognizes revenue in accordance with the provisions of IAS 18 and specifically as follows:

Revenue from product sales is recognized when the rights of ownership of the products are transferred to the purchaser upon shipment or delivery based on specific contract terms. The Corporation's revenue recognition policy is as follows:

- (i) Integrated Database Management System (IDMS) contracts entered into with General Motors Corporation (GM) to deliver, on behalf of GM, dealer management systems to GM-branded dealerships and non-IDMS contracts entered into directly with dealership customers: revenue pertaining to the XSELLERATOR server is recognized when the server and the XSELLERATOR software is installed at the customer's site. The balance of revenue (XSELLERATOR software and implementation services) is recognized when the customer "goes live" with the XSELLERATOR software.
- (ii) Revenue from ongoing maintenance and support of XSELLERATOR is recognized in the period that the support service has been delivered to the customer.
- (iii) Payments received in advance of the satisfaction of the Corporation's revenue recognition policies are recorded as deferred revenue.

**(i) Common Shares**

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

**(j) Government grants**

Grants from the government are recognized at their face value where there is a reasonable assurance that the grant will be received and the Corporation will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

**(k) Stock-based compensation**

The Corporation uses the fair value method to account for stock options granted to employees, officers, and directors of the Corporation for grants under the Corporation's Stock Option Plan. Compensation expense for options granted is based on the estimated fair value, using the Black-Scholes option pricing model, at the time of grant and the expense is recognized over the tranche's vesting period by increasing contributed surplus, with a corresponding increase to employee stock option benefits expense, based on the number of awards expected to vest.

**3. Summary of Accounting Policies** *(continued)*

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**(l) Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Corporation has a right and intention to off set current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

**(m) Financial Instruments**

*Non-derivative financial assets:*

The Corporation initially recognizes trade and other receivables and deposits on the date that they originate. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation has the following non-derivative financial assets: financial assets (liabilities) at fair value through profit or loss and loans and receivables.

*Financial assets and liabilities at fair value through profit or loss*

A financial asset or liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets and liabilities are designated

### **3. Summary of Accounting Policies** *(continued)*

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at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets and liabilities designated at fair value through profit or loss are measured at fair value and their changes therein are recognized in profit or loss.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. The Corporation has the following loans and receivables: accounts receivable.

#### *Non-derivative financial liabilities:*

All financial liabilities, including liabilities designated at fair value through profit or loss, are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Corporation has the following non-derivative financial liabilities: accounts payable and accrued liabilities, and long-term debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

#### **(n) Earnings Per Share**

Basic earnings per share are based on the income attributable to shareholders for the period divided by the weighted average number of common shares outstanding during the period. The diluted net income per share is based on the weighted average number of common shares outstanding during the period plus the effects of dilutive share equivalents. Diluted net income per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares.

#### **(o) Significant Accounting Judgments and Estimates**

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes will differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made, relate to, but are not limited to, the following:

### **3. Summary of Accounting Policies** *(continued)*

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#### *Accounts receivable*

Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectable accounts.

#### *Property and equipment*

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Corporation's property and equipment in the future.

#### *Internally generated software development costs*

Management monitors progress of internal research and development projects by using a project management system. Significant judgment is required in distinguishing research from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred. To distinguish any research-type project phase from the development phase, it is the Corporation's accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the group's overall budget forecast as the capitalization of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Corporation's management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

#### *Recoverability of asset carrying values*

The Corporation assesses its property and equipment, including intangible assets, for possible impairment at the end of each reporting period or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable.

The assessment of any impairment of property and equipment, including intangible assets, is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values.

#### *Commitments and contingencies*

Management estimates the inputs used in determining the various commitments and contingencies accrued in the consolidated interim statement of financial position

### **3. Summary of Accounting Policies** *(continued)*

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#### **(p) Accounting Changes**

A number of new standards, amendments to standards, and interpretations are not yet effective for the three months ended March 31, 2011, and have not been applied in preparing these consolidated financial statements. A summary of new standards that have not been adopted which may impact the Corporation is as follows:

International Financial Reporting Standard 9, Financial Instruments (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and 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 equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss, however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added 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 would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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### **4. Explanation of Transition to IFRS**

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The Corporation has adopted IFRS effective January 1, 2010, (“the Transition Date”) and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Corporation’s consolidated financial statements for the year ending December 31, 2011, will be the first annual financial statements prepared under IFRS. The Corporation will ultimately prepare its opening IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2011. Accordingly, the opening IFRS statement of financial position and the December 31, 2010, comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011, may differ from those presented at this time.

#### **4. Explanation of Transition to IFRS**

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##### **Mandatory exceptions to retrospective application**

In preparing these financial statements in accordance with IFRS, the Corporation has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied are:

##### *Estimates*

Estimates previously made by the Corporation under Canadian GAAP are consistent with those under IFRS. Hindsight was not used to create or revise previous estimates.

##### **Elected exemptions to retrospective application**

IFRS 1 “First-time Adoption of International Financial Reporting Standards” allows for certain elected exemptions from full retrospective application of IFRS. The Corporation has applied certain of the optional exemptions from full retrospective application of IFRS. Based on management’s analysis of the various accounting policy choices available, the IFRS 1 optional exemptions applied are described below:

(i) Share-based payment transactions

The Corporation has elected to apply IFRS 2, “Share-based Payments” (“IFRS 2”), to equity instruments granted after November 7, 2002, which have not vested by the Transition Date. Accordingly, Management has elected not to restate the stock-based compensation expense for share based payments granted and vested prior to the Transition Date. Further, the Corporation changed its accounting policy with respect to stock-based compensation, effective January 1, 2010, for new issuances to comply with the IFRS guidelines under IFRS 2. The resultant change required the Corporation to account for an estimate of forfeitures at the time of grant and the associated compensation expense on a tranche by tranche basis.

(ii) Borrowing costs

IAS 23, “Borrowing Costs”, has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is before January 1, 2010. Accordingly, the Corporation has not capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was before January 1, 2010.

(iii) Fair value or revaluation as deemed cost

IAS 16, “Property, plant, and equipment”, allows for property and equipment to continue to be carried at cost less depreciation, same as under Canadian GAAP. Accordingly, the Corporation has elected to carry its property and equipment at historical cost less accumulated amortization.

##### **Reconciliation of equity and comprehensive income as reported under Canadian GAAP and IFRS**

In preparing its opening IFRS consolidated statement of financial position, the Corporation has adjusted amounts previously reported in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation’s consolidated statements of financial position, comprehensive income, and cash flows is set out in the following tables and the accompanying notes.

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**4. Explanation of Transition to IFRS (continued)**

**Reconciliation of financial position:**

As at

	Note	December 31, 2010			March 31, 2010			January 1, 2010		
		Canadian GAAP	Effect of trans to IFRS	IFRS	Canadian GAAP	Effect of trans to IFRS	IFRS	CDN GAAP	Effect of trans to IFRS	IFRS
<b>ASSETS</b>										
<b>Current:</b>										
Cash		137,410	-	<b>137,410</b>	1,384,638	-	<b>1,384,638</b>	1,343,782	-	<b>1,343,782</b>
Accounts receivable		1,103,768	-	<b>1,103,768</b>	1,206,967	-	<b>1,206,967</b>	1,200,435	-	<b>1,200,435</b>
Inventory		8,553	-	<b>8,553</b>	2,652	-	<b>2,652</b>	2,377	-	<b>2,377</b>
Prepaid expenses		91,676	-	<b>91,676</b>	90,765	-	<b>90,765</b>	88,458	-	<b>88,458</b>
		1,341,407		<b>1,341,407</b>	2,685,022		<b>2,685,022</b>	2,635,052		<b>2,635,052</b>
Property & equipment	c	261,497	(14,593)	<b>246,904</b>	315,957	(15,304)	<b>300,653</b>	335,148	(15,541)	<b>319,607</b>
Intangible assets	b	8,943,446	(4,753,501)	<b>4,189,945</b>	8,924,714	(4,717,592)	<b>4,207,122</b>	8,755,135	(4,670,822)	<b>4,084,313</b>
Software licenses held for resale		-	-	<b>-</b>	4,325	-	<b>4,325</b>	5,767	-	<b>5,767</b>
Deferred tax asset	d	3,089,331	1,321,536	<b>4,410,867</b>	3,406,208	1,321,400	<b>4,727,608</b>	3,481,822	1,318,514	<b>4,800,336</b>
Investment tax credits		2,821,642	-	<b>2,821,642</b>	2,477,564	-	<b>2,477,564</b>	2,477,564	-	<b>2,477,564</b>
		16,457,323	(3,446,558)	<b>13,010,765</b>	17,813,790	(3,411,496)	<b>14,402,294</b>	17,690,488	(3,367,849)	<b>14,322,639</b>
<b>LIABILITIES</b>										
<b>Current:</b>										
Accounts payable and accrued liabilities		502,209	-	<b>502,209</b>	655,346	(31,009)	<b>624,337</b>	517,984	(29,929)	<b>488,055</b>
Deferred revenue		157,332	-	<b>157,332</b>	156,842	-	<b>156,842</b>	229,698	-	<b>229,698</b>
Current portion of long-term debt		41,557	-	<b>41,557</b>	25,947	-	<b>25,947</b>	27,940	-	<b>27,940</b>
Deferred government assistance		-	-	<b>-</b>	-	-	<b>-</b>	15,900	-	<b>15,900</b>
		701,098		<b>701,098</b>	838,135		<b>807,126</b>	791,522		<b>761,593</b>
Long-term debt		292,937	(34,251)	<b>258,686</b>	265,625	-	<b>265,625</b>	260,558	-	<b>260,558</b>
Provisions		-	34,251	<b>34,251</b>	-	31,009	<b>31,009</b>	-	29,929	<b>29,929</b>
Convertible debenture		-	-	<b>-</b>	1,399,163	-	<b>1,399,163</b>	1,377,883	-	<b>1,377,883</b>
		994,035		<b>994,035</b>	2,502,923		<b>2,502,923</b>	2,429,963		<b>2,429,963</b>
<b>SHAREHOLDERS' EQUITY</b>										
Share capital		23,399,937	-	<b>23,399,937</b>	23,399,937	-	<b>23,399,937</b>	23,399,937	-	<b>23,399,937</b>
Convertible debenture		-	-	<b>-</b>	195,685	-	<b>195,685</b>	195,685	-	<b>195,685</b>
Contributed surplus	a	1,967,812	89,890	<b>2,057,702</b>	1,699,518	76,349	<b>1,775,867</b>	1,664,447	76,693	<b>1,741,140</b>
Deficit	e	(9,904,461)	(3,536,448)	<b>(13,440,909)</b>	(9,984,273)	(3,487,845)	<b>(13,472,118)</b>	(9,999,544)	(3,444,542)	<b>(13,444,086)</b>
		15,463,288	(3,446,558)	<b>12,016,730</b>	15,310,867	(3,411,496)	<b>11,899,371</b>	15,260,525	(3,367,849)	<b>11,892,676</b>
		16,457,323		<b>13,010,765</b>	17,813,790		<b>14,402,294</b>	17,690,488		<b>14,333,639</b>

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**4. Explanation of Transition to IFRS (continued)**

**Reconciliation of comprehensive income:**

	Year ended December 31, 2010			Three months ended March 31, 2010			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Gross revenue		7,695,773	-	<b>7,695,773</b>	1,945,599	-	<b>1,945,599</b>
3 <sup>rd</sup> Party Costs (Direct)		1,226,854	-	<b>1,226,854</b>	175,487	-	<b>175,487</b>
Salaries and Benefits(Direct)		2,076,596	-	<b>2,076,596</b>	693,682	-	<b>693,682</b>
Margin after direct cost		4,392,323	-	<b>4,392,323</b>	1,076,430	-	<b>1,076,430</b>
<b>Expenses</b>							
Salaries and benefits		1,591,060	164,565	<b>1,755,625</b>	429,266	40,780	<b>470,046</b>
Government assistance		-	(164,565)	<b>(164,565)</b>	-	(40,780)	<b>(40,780)</b>
Employee stock option benefits	<b>a</b>	129,620	13,198	<b>142,818</b>	35,070	(342)	<b>34,728</b>
General and administrative		1,196,911	-	<b>1,196,911</b>	292,623	-	<b>292,623</b>
Sales and marketing		214,713	-	<b>214,713</b>	57,764	-	<b>57,764</b>
Interest expense on long-term debt		303,221	-	<b>303,221</b>	74,104	-	<b>74,104</b>
Bank charges and other interest		26,718	-	<b>26,718</b>	2,899	-	<b>2,899</b>
Amortization of intangible assets	<b>b</b>	325,200	82,678	<b>407,878</b>	63,020	41,774	<b>104,794</b>
Amortization of property and equipment	<b>c</b>	81,674	(948)	<b>80,726</b>	20,172	(237)	<b>19,935</b>
Amortization of software licenses held for resale		5,767	-	<b>5,767</b>	1,442	-	<b>1,442</b>
Foreign exchange loss		163,378	-	<b>163,378</b>	88,779	4,994	<b>93,773</b>
Total expenses		4,038,262	94,928	<b>4,133,190</b>	1,065,139	46,189	<b>1,111,328</b>
Net income (loss) before income taxes		354,061	(94,928)	<b>259,133</b>	11,291	(46,189)	<b>(34,898)</b>
Future income tax expense (recovery)	<b>d</b>	258,978	(3,022)	<b>255,956</b>	(3,980)	(2,886)	<b>(6,866)</b>
Net income (loss) and comprehensive income (loss)		95,083	(91,906)	<b>3,177</b>	15,271	(43,303)	<b>(28,032)</b>

#### **4. Explanation of Transition to IFRS** *(continued)*

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##### **Note to the Reconciliations**

###### **a) Stock-based compensation**

Under Canadian GAAP, the Corporation recognized compensation expense associated with stock-based compensation plans on a straight-line basis over the vesting period of the option. IFRS requires each “tranche” of a stock-based compensation arrangement to be treated as a separate grant which results in accelerated recognition of compensation expense when compared to Canadian GAAP.

Additionally, IFRS requires that the expected vesting awards be accounted for at the date of the grant. The resulting change increased contributed surplus and increased deficit by \$76,693 at the transition date and decreased employee stock option benefits by \$342 for the three months ended March 31, 2010, and increased employee stock option benefits by \$13,198 for the year ended December 31, 2010.

###### **b) Software development costs**

Under Canadian GAAP, intangible assets were recognized as one overall asset. Under IFRS, the intangible assets are broken down based on their cash generating units (“CGU”) levels and tested for impairment on an annual basis. The Corporation has analyzed the intangible asset and it has been separated into three CGUs; General Motors (“GM”) Canadian Dealerships, General Motors US Dealerships, and Other OEM Dealerships. Under IFRS, if the carrying value of each CGU exceeds the greater of the fair value less cost to sell or value in use, an impairment loss is recognized in the CGU. Based on the impairment test, software development costs for the General Motors US Dealerships, and the Other OEM Dealerships were impaired. As a result, the intangible asset balance in the GM US CGU was decreased by \$3,413,404 and the intangible asset balance in the Other OEM Dealerships CGU was decreased by \$1,272,959 for a total of intangible asset writedown of \$4,686,363 and a corresponding increase in the cumulative deficit of \$4,686,363 at the transition date. In addition, \$15,541 for Vendor Distribution rights was reallocated from Property and Equipment to Intangible Assets for a total Intangible Asset adjustment of \$4,670,822.

As well, under Canadian GAAP, the Corporation amortized its software development costs using the units of production method. Under IFRS the Corporation will use a ten year, straight-line amortization method. As a result of the change in useful life, amortization of intangible assets expense increased by \$41,774 for the three months ended March 31, 2010, and \$82,678 for the year ended December 31, 2010.

###### **c) Property and equipment**

Under Canadian GAAP, the Corporation included vendor distribution rights in its property and equipment. IFRS requires that these items be shown as an intangible asset. The resulting change decreased property and equipment by \$15,541 and increased intangible assets by \$15,541 at the transition date. Amortization of property and equipment expense decreased by \$237 for the three months ended March 31, 2010, and \$948 for the year ended December 31, 2010

###### **d) Deferred tax asset**

Under Canadian GAAP, the Corporation used the liability method of tax allocation for current and future income taxes. Under IFRS, a deferred tax asset is recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be generated to utilize these unused tax losses and unused tax credits. Based on current and forecasted

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**4. Explanation of Transition to IFRS** *(continued)*

taxable profits, the Corporation expects to use these losses and credits, so there has been no change in the carrying value of its deferred tax asset upon adoption of IFRS. The conversion to IFRS has changed the deferred tax asset balance as a result of the new accounting values of the intangible assets. The deferred tax asset increased by \$1,318,514 as of the transition date.

**e) Summary of adjustments to Deficit**

The following is a summary of transitional adjustments to the Corporation's deficit from Canadian GAAP to IFRS:

	December 31, 2010	March 31, 2010	January 1, 2010
Deficit as reported under Canadian GAAP	\$ (9,904,461)	\$ (9,984,273)	\$ (9,999,544)
IFRS adjustments increase (decrease):			
Stock-based compensation Note a	(89,890)	(76,349)	(76,693)
Property and equipment Note c	(14,593)	(15,304)	(15,541)
Intangibles Note b	(4,753,501)	(4,717,592)	(4,670,822)
Deferred tax Note d	1,321,536	1,321,400	1,318,514
	(3,536,448)	(3,487,845)	(3,444,542)
Deficit as reported under IFRS	\$ (13,440,909)	\$ (13,472,118)	\$ (13,444,086)

**f) Material adjustments to the consolidated statement of cash flows for 2010**

Consistent with the Corporation's accounting policy choice under IAS 7, the Statement of Cash Flows has no material difference between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**5. Property and Equipment**

The Corporation's property and equipment comprise computer hardware and software, office equipment and leasehold improvements. The carrying amount can be analyzed as follows:

	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Gross Carrying Amount</b>					
Balance at January 1, 2011	\$ 928,838	\$ 535,718	\$ 393,224	\$ 85,101	\$1,942,881
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluation increase	-	-	-	-	-
Net exchange differences	-	-	-	-	-
Balance at March 31, 2011	928,838	535,718	393,224	85,101	1,942,881
<b>Amortization and Impairment</b>					
Balance at January 1, 2011	817,128	535,718	303,381	39,750	1,695,977
Disposal	-	-	-	-	-
Net exchange differences	-	-	-	-	-
Amortization	8,378	-	4,492	3,039	15,909
Balance at March 31, 2011	825,506	535,718	307,873	42,789	1,711,886
Carrying amount March 31, 2011	\$ 103,332	\$ -	\$ 85,351	\$ 42,312	\$ 230,995

	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Gross Carrying Amount</b>					
Balance at January 1, 2010	\$ 922,336	\$ 535,718	\$ 391,540	\$ 386,613	\$2,236,207
Additions	6,502	-	1,684	-	8,186
Disposals	-	-	-	(301,512)	(301,512)
Revaluation increase	-	-	-	-	-
Net exchange differences	-	-	-	-	-
Balance at December 31, 2010	928,838	535,718	393,224	85,101	1,942,881
<b>Amortization and Impairment</b>					
Balance at January 1, 2010	770,646	535,718	281,131	329,105	1,916,600
Disposal	-	-	-	(301,512)	(301,512)
Net exchange differences	-	-	-	-	-
Amortization	46,482	-	22,250	12,157	80,889
Balance at December 31, 2010	817,128	535,718	303,381	39,750	1,695,977
Carrying amount December 31, 2010	\$ 111,710	\$ -	\$ 89,843	\$ 45,351	\$ 246,904

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**6. Intangible Assets**

The Corporation's other intangible assets comprise internally generated software development costs and vendor distribution rights. The carrying amounts for the reporting periods under review can be analyzed as follows:

	<b>Software Development Costs</b>	<b>Vendor Distribution Rights</b>	<b>Total</b>
<b>Gross Carrying Amount</b>			
Balance at January 1, 2011	\$ 11,157,328	\$ 42,646	\$ 11,199,974
Additions	221,957	-	221,957
Disposals	-	-	-
Net exchange differences	-	-	-
Balance at March 31, 2011	11,379,285	42,646	11,421,931
<b>Amortization and impairment</b>			
Balance at January 1, 2011	6,981,976	28,053	7,010,029
Amortization	111,082	220	111,302
Impairment losses	-	-	-
Disposals	-	-	-
Net exchange differences	-	-	-
Balance at March 31, 2011	7,093,058	28,273	7,121,331
Carrying amount March 31, 2011	\$ 4,286,227	\$ 14,373	\$ 4,300,600
<b>Gross Carrying Amount</b>			
Balance at January 1, 2010	\$ 10,643,817	\$ 42,646	\$ 10,686,463
Additions	513,511	-	513,511
Disposals	-	-	-
Net exchange differences	-	-	-
Balance at December 31, 2010	11,157,328	42,646	11,199,974
<b>Amortization and impairment</b>			
Balance at January 1, 2010	6,575,045	27,105	6,602,150
Amortization	406,931	948	407,879
Impairment losses	-	-	-
Disposals	-	-	-
Net exchange differences	-	-	-
Balance at December 31, 2010	6,981,976	28,053	7,010,029
Carrying amount December 31, 2010	\$ 4,175,352	\$ 14,593	\$ 4,189,945

In accordance with IFRS 1, the Corporation was required to perform an impairment test of its intangible assets as of the Transition Date. The Corporation's impairment analysis as of January 1, 2010, indicated that the recoverable amount of the net assets was below its respective carrying value and, therefore, an impairment existed. Details of the impairment are included in Note 4.

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**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

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**7. Software Licenses Held for Resale**

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On January 31, 2006, the Corporation entered into a software license agreement with Cyclone Commerce, Inc. Under the terms of the agreement, the Corporation may deploy up to 625 licenses of Cyclone Commerce, Inc.'s communication software program that allows dealerships to communicate in a specialized way with the manufacturer. Quorum, in turn, has a right to deploy the communications software to its dealership customers through to January 31, 2010.

The licenses have been fully amortized on a straight-line basis over the four year term of the agreement.

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Cost	\$ -	\$ 276,794	\$ 276,794
Accumulated amortization	-	276,794	271,027
Net book value	\$ -	\$ -	\$ 5,767

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**8. Operating Line of Credit**

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On December 15, 2010, the Corporation entered into a credit facility agreement with HSBC Bank that will allow Quorum to borrow up to \$525,000 to meet working capital requirements, subject to the value of certain accounts receivable.

The Facility is secured by a first priority security interest in all of the Corporation's present and after - acquired property.

As of March 31, 2011, based on eligible accounts receivable, the maximum available draw on the Facility was \$525,000 (December 31, 2010 - \$525,000). Amounts drawn on the Facility incur interest at a rate of prime plus 1.75%. The balance drawn as of March 31, 2011 was \$Nil (December 31, 2010 - \$Nil).

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**9. Long-term Debt**

Long-term debt includes the following financial liabilities:

	March 31, 2011	December 31, 2010	January 1, 2010
	CDN\$	CDN\$	CDN\$
Payable in Canadian dollars: ACOA financing (a)	\$ 291,679	\$ 300,243	\$ 277,685
	<b>291,679</b>	300,243	277,685
Payable in U.S. dollars: Software licensing balance of purchase price (b)	-	-	10,813
	<b>291,679</b>	300,243	288,498
Installments due within one year	<b>45,209</b>	41,557	27,940
<b>Total long-term debt</b>	<b>\$ 246,470</b>	<b>\$ 258,686</b>	<b>\$ 260,558</b>

(a) March 31, 2009, the Corporation entered into a \$500,000 loan agreement with the Atlantic Canada Opportunities Agency (ACOA) to finance the expansion of the St. John's office and the release of XSELLERATOR, version 4.7. The loan, which is unsecured and interest-free, matures on July 1, 2015. Monthly repayments commenced on July 2, 2010. As of March 31, 2011, the loan has been received in full and recorded at a fair value of \$249,218, based on a 20% rate of interest over 5 years, along with \$68,151 of accredited interest less principal repayments of \$25,690.

(b) On January 31, 2006, the Corporation entered into a software license agreement with Cyclone Commerce, Inc. (refer to note 7). The purchase price of US\$238,000 was payable in variable quarterly installments commencing in January, 2006 and ended in February, 2010.

Scheduled principal repayments at March 31, 2011 are as follows:

2011 – 9 months	\$ 32,994
2012	56,166
2013	70,774
2014	85,383
2015	46,362
<b>Total</b>	<b>\$ 291,679</b>

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**10. Convertible Debenture**

On April 15, 2008 the Corporation issued a \$1.5 million secured convertible debenture. The debenture was secured by a fixed and floating charge on all assets of the Corporation, to be released on conversion of the debenture.

The debenture bore interest at a rate of 12% per annum, payable monthly in arrears, and was to mature April 15, 2011. However, the Corporation amended the debenture to change the maturity date to December 15, 2010. It was convertible any time prior to maturity, at the debenture holders' option, into common shares of Quorum Information Technologies Inc. at a price of \$0.55 per common share, equating to 2,727,272 shares.

As the debenture was convertible, the liability and equity components have been presented separately. Using the residual method, the liability component has been calculated at \$1,255,036, net of transaction costs, with the remaining \$195,685 being recognized as equity. The equity component was accreted using the effective interest rate method over the term of the debenture.

On December 15, 2010 the Corporation retired the debenture.

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Convertible debenture issued, net of transaction costs	\$ -	\$ 1,450,721	\$ 1,450,721
Valuation of conversion feature	-	(195,685)	(195,685)
Debt component of convertible debenture	-	1,255,036	1,255,036
Accretion of effective interest and legal fees	-	244,964	122,847
Repayment of principal	-	(1,500,000)	-
Convertible debenture-ending balance	\$ -	\$ -	\$ 1,377,883

## 11. Government Grants and Assistance

On June 12, 2007, the Corporation entered into an agreement with the Government of Newfoundland and Labrador, Department of Innovation, Trade and Rural Development to provide an eight percent subsidy of the Corporation's gross payroll costs including approved benefits associated with Newfoundland and Labrador employees, for a period of five years. In order to maintain this subsidy, the Corporation must maintain a high level of qualified employees (minimum of 35 full-time positions) each earning annual salaries aggregating \$35,000 or higher, net of benefits.

On March 31, 2009, the Corporation entered into an unsecured, interest-free loan agreement with the Atlantic Canada Opportunities Agency (ACOA) to finance a project for the expansion of the St. John's office and the release of XSELLERATOR, version 4.7. The completion date of the project was March 31, 2010. The \$250,782 difference between the fair value of the loan and the cash received has been accounted for as a government grant, as prescribed by IAS 20 under IFRS. The amount relates to expenses and capital expenditures to be incurred over the term of the project. Any amounts allocated to capital expenditures have been deducted from the specific fixed assets with depreciation calculated on the net amount over the life of the asset.

## 12. Provisions

Provisions are considered long-term. The carrying amounts may be analyzed as follows:

	<b>Central Consulting Services Inc.</b>
Carrying amount, January 1, 2011	\$ 34,251
Additional provisions	1,081
Amount utilized	-
Reversals	-
<b>Carrying amount, March 31, 2011</b>	<b>35,332</b>
Carrying amount, January 1, 2010	29,929
Additional provisions	4,322
Amount utilized	-
Reversals	-
<b>Carrying amount, December 31, 2010</b>	<b>34,251</b>

On July 13, 2009, the Corporation entered into an agreement with Central Consulting Services Inc. to prepare the Scientific Research & Economic Development (SRED) claim for the years ended December 31, 2007, December 31, 2008 and December 31, 2009. The amount of \$73,159, recorded at a fair value of \$35,332, is not payable until the Corporation is in a position to utilize the SRED Investment Tax Credits (ITCs). The Corporation does not expect to utilize those ITCs until the year ended December 31, 2015.

**13. Investment Tax Credits**

The Corporation recorded government research and development tax credits pertaining to the following taxation years. These amounts have been applied to reduce the cost of capitalized software development costs and expire twenty years after the year in which they were earned.

2002	\$	192,988
2003		279,845
2004		463,146
2005		573,125
2006		580,940
2007		387,520
2008		218,944
2009		125,134

**\$ 2,821,642**

The Corporation is preparing the application for government research and development tax credits pertaining to the 2010 taxation year. These credits have not yet been recognized by the Corporation nor approved by the authorities. The actual amount realized may vary from the estimate of \$126,860.

**14. Share Capital**

**(a) Authorized**

The Corporation is authorized to issue an unlimited number of Common shares and Preferred shares issuable in series.

**(b) Issued and Outstanding**

A summary of the changes to shareholders' equity for the period is presented below:

	<b>Number of Shares</b>	<b>Amount</b>
<b>Common Shares</b>		
Balance, December 31, 2010	<b>39,298,438</b>	<b>\$ 23,399,937</b>
Issued, January 1 – March 31, 2011	-	-
<b>Total share capital at March 31, 2011</b>	<b>39,298,438</b>	<b>\$ 23,399,937</b>

**(c) Net income per share**

In calculating the basic and diluted earnings per share for the three months ended March 31, 2011 and 2010, the weighted average number of shares used in the calculation is shown in the table below. The diluted shares are based on an average stock price of \$0.14 for the 1<sup>st</sup> quarter of 2011 and \$0.18 for the 1<sup>st</sup> quarter of 2010.

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**14. Share Capital** *(continued)*

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Net loss</b>	<b>\$ (100,178)</b>	<b>\$ (28,032)</b>
<b>Common Shares</b>		
Balance	<b>39,298,438</b>	39,298,438
Options issued at \$ 0.12	<b>385,881</b>	
Options issued at \$ 0.15		3,004,500
Options issued at \$ 0.16		96,000
<b>Diluted shares outstanding</b>	<b>39,684,319</b>	<b>42,398,938</b>
<b>Net loss per share – basic</b>	<b>\$ (0.0025)</b>	<b>\$ (0.0007)</b>
<b>Net loss per share – diluted</b>	<b>\$ (0.0025)</b>	<b>\$ (0.0007)</b>

**15. Stock-Based Compensation**

As at March 31, 2011, a total of 3,929,844 stock options were reserved for issuance under the Corporation's Stock Option Plan of which 202,563 stock options remain available for grant. Pursuant to the Stock Plan, options may be granted to purchase common shares of the Corporation up to a maximum of 10% of common shares currently issued and outstanding.

Quorum provides incentives to employees, officers and directors of the Corporation by issuing options to acquire common shares. The exercise price of the options is determined by the Board of Directors in accordance with the policies of the TSX Venture Exchange ("TSXV"). The options have a maximum term of five years with a hold period of four months from the date of the initial grant, and no more than 1/3 of the stock options granted to any one individual shall vest in any twelve-month period.

Stock option transactions for the respective periods and the number of stock options outstanding are summarized as follows:

	<b>As at March 31, 2011</b>		<b>As at December 31, 2010</b>	
	<b>Number of shares</b>	<b>Weighted average exercise price</b>	<b>Number of shares</b>	<b>Weighted average exercise price</b>
Balance, beginning of period	<b>3,732,481</b>	<b>\$0.17</b>	3,400,500	\$0.18
Granted during the period	-	-	396,381	\$0.12
Exercised during the period	-	-	-	-
Forfeited during the period	<b>(5,200)</b>	<b>\$0.15</b>	(64,400)	\$0.15
Balance, end of period	<b>3,727,281</b>	<b>\$0.17</b>	3,732,481	\$0.17
Exercisable options, end of period	<b>3,038,027</b>	<b>\$0.18</b>	2,443,527	\$0.19

**Quorum Information Technologies Inc.**  
**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**15. Stock-Based Compensation** *(continued)*

For the three months ended March 31, 2011, stock based compensation expense of \$17,585 (2010 - \$34,728) was recorded related to the Corporation's stock based compensation plan. The following table summarizes information about stock options outstanding at March 31, 2011:

Exercise prices	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price
\$ 0.12	385,881	4.2	\$ 0.12
\$ 0.15	2,945,400	3.0	\$ 0.15
\$ 0.16	96,000	3.5	\$ 0.16
\$ 0.49	300,000	1.3	\$ 0.49
	3,727,281	3.0	\$ 0.17

The Corporation accounts for its stock-based compensation plan using the fair value method, under which compensation expense for each tranche of an award is measured at the grant date and recognized over the vesting period. Assumptions utilized in the calculation thereof using the Black-Scholes model for option valuation are as follows:

	<b>2011</b>	<b>2010</b>
Volatility rate	108%	108%
Stock option holding period (years)	5	5
Risk free interest rate	1.8%	1.8%
Dividend yield	0%	0%

**16. Contributed Surplus**

The following table reconciles the Corporation's contributed surplus:

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Contributed surplus, beginning of period	\$ 2,057,702	\$ 1,741,139
Stock-based compensation	17,585	142,820
Convertible debt	-	173,743
Exercise of share options	-	-
Contributed surplus, end of period	\$ 2,075,287	\$ 2,057,702

## 17. Operating leases

The Corporation's future minimum operating lease payments are as follows:

2011	\$ 544,029
2012	541,051
2013	465,232
2014	259,051
2015	-
<b>Total</b>	<b>\$ 1,809,363</b>

Lease payments recognized as an expense during the three month period ending March 31, 2011 amount to \$206,688 (2010: \$187,706). This amount consists of minimum lease payments. Sublease payments of \$47,906 (2010: \$24,568) were received.

The rental contract for the office rented since October 1, 2007 at 10655 Southport Road, Calgary, Alberta has a non-cancellable term of seven years. The rental contract for the office rented since June 1, 2008 at 136 Crosbie Road, St. John's, Newfoundland and Labrador has a non-cancellable term of five years. The rental contract for the office rented since June 1, 2007 at 2109-39 Ottawa Street, Windsor, Ontario has a non-cancellable term of five years

The Corporation's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

## 18. Financial Instruments and Risk Management

### a) *Financial instrument measurement and classification*

The classification of financial instruments remains consistent at March 31, 2011 with that as at December 31, 2010.

### b) *Credit risk*

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Corporation. The Corporation manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable primarily includes balances from customers operating primarily automotive dealership industry. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry. An analysis of accounts receivable, net of impairment provisions, which are past due but not impaired is as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Past due 61 – 90 days	\$ 9,796	\$ 2,188	\$ 1,515
Past 90 days	48,164	27,948	202,693
<b>Total past due</b>	<b>\$ 57,960</b>	<b>\$ 30,136</b>	<b>\$ 204,208</b>

**18. Financial Instruments and Risk Management** *(continued)*

The Corporation reduces an account receivable to its estimated recoverable amount. At March 31, 2011, the Corporation had recorded a provision of \$19,436 (December 31, 2010 – \$Nil, January 1, 2010 - \$139,513) relating to accounts receivable which may not be collectible.

*c) Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Corporation is exposed to interest rate risk as a result of funds borrowed at floating interest rates. The Corporation manages this risk by monitoring interest rate trends and forecasted economic conditions. As of March 31, 2011, the Corporation had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Corporation's net income would be approximately \$82 lower/higher for the respective three months ended March 31, 2011 (2010 – \$371).

*d) Foreign currency risk*

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Corporation uses the U.S. dollar as its functional currency for the operations of Quorum Information Technologies (US) Inc. The Corporation manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions. A 10% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. For the three months ended March 31, 2011, a 10% increase/decrease in the Canadian dollar vis-à-vis the U.S. dollar is estimated to decrease/increase net income of the Corporation from unrealized gains/losses by approximately \$229,456 (2010 – \$310,315), and from realized gains/losses approximately \$1,942 (2010 – \$1,720).

*e) Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due and describes the Corporation's ability to access cash. The Corporation requires sufficient cash resources to finance operations, debt, and settle other liabilities of the Corporation as they come due. The Corporation manages liquidity risk by maintaining a line of credit facility and through management of its operational cash flows.

	Payments Due By Period					Total
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	
Accounts payable and accrued liabilities	\$489,980	\$ -	\$ -	\$ -	\$ -	\$489,980
Long-term debt <sup>5</sup>	8,563	36,646	141,548	104,922	-	291,679
Provisions	-	-	-	29,264	43,895	73,159
<b>Total</b>	<b>\$498,543</b>	<b>\$ 36,646</b>	<b>\$141,548</b>	<b>\$134,186</b>	<b>\$ 43,895</b>	<b>\$854,818</b>

<sup>5</sup> Long-term debt obligations reflect principal payments and excludes any associated interest portion

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## 19. Segmented Information

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The Corporation operates in one segment, the computer network and business software industry.

In 2004 the Corporation commenced selling into the United States marketplace. Gross revenue by geographic area is summarized as follows:

	<b>Three Months Ended March 31, 2011</b>	<b>Three Months Ended March 31, 2010</b>
Canada	\$ 1,293,360	\$ 1,420,756
United States	618,908	524,843
Total gross revenue	<b>\$ 1,912,268</b>	<b>\$ 1,945,599</b>

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## 20. Economic Dependence

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The Corporation is an information technology company that has an Integrated Dealership Management System (IDMS) contract with General Motors. Currently, the Corporation receives 75% of its recurring support revenue from General Motors dealerships under the terms of this contract.

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## 21. Capital Structure

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The Corporation's capital structure is comprised of shareholders' equity and long-term debt. The Corporation's objectives when managing its capital structure are to:

- (a) maintain financial flexibility so as to preserve the Corporation's access to capital markets and its ability to meet its financial obligations; and
- (b) finance internally-generated growth



## Corporate Information

### Board of Directors



**Maury Marks**  
*Director*  
President & Chief Executive Officer  
Quorum Information Technologies Inc.



**John Carmichael**  
*Chairman of Board of Directors*  
Dealer Principal  
City Buick Pontiac Cadillac



**Scot Eisenfelder**  
*Director*  
Strategy Consultant  
AutoNation Inc.



**Craig Nieboer**  
*Director*  
Chief Financial Officer  
Canadian Energy Services &  
Technology Corp.



**Michael Podovilnikoff**  
*Director*  
Business Consultant

### Officers

**John Carmichael**  
Chairman of Board of Directors

**Maury Marks**  
President & Chief Executive Officer

**Jeff Sharpe**  
Chief Financial Officer

**Corporate Counsel**  
Burnet Duckworth & Palmer  
Calgary, Alberta

**Bankers**  
Canadian Imperial Bank of Commerce  
Calgary, Alberta

**Auditors**  
DNTW  
Chartered Accountants, LLP  
Calgary, Alberta

**Stock Exchange Listing**  
TSX Venture Exchange  
Trading Symbol: QIS

**Registrar and Transfer Agent**  
Computershare Trust Company of Canada  
Calgary, Alberta

### QUORUM INFORMATION TECHNOLOGIES

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**Stock Symbol – TSXV: QIS**

