



SENSIO®

**MANAGEMENT DISCUSSION AND ANALYSIS
4TH QUARTER AND FISCAL YEAR ENDED
MAY 31, 2011**

SEPTEMBER 22, 2011

SENSIO TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (MD&A) provides an explanation of the operating results and the evolution of the SENSIO Technologies Inc. financial situation for the fiscal year ending May 31, 2011 compared to the fiscal year that ended May 31, 2010. It also provides an overall comparison of the Corporation's balance sheets at the same dates. This MD&A, prepared on September 22, 2011, is meant to be used to complete the information found in the audited financial statements and should be read in parallel with the latter. The purpose is to help the reader to better understand both the activities and the main financial results of SENSIO. Unless otherwise indicated, the expressions "Corporation" and "SENSIO" refer to SENSIO Technologies Inc.

The financial statements of the Corporation are presented in Canadian dollars and have been compiled in compliance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of financial statements in compliance with GAAP rules requires management to make estimates and assumptions that have an impact on the assets and liabilities reported in the financial statements, on the disclosure of future assets and liabilities at the date of the financial statements, as well as on reported earnings and expenses during the period in question. These estimations are based on management experience and on other assumptions that management deems to be reasonable under the circumstances. Readers are invited to refer to note 3 of the financial statements for a description of all accounting standards.

The financial statements of the Corporation have been reviewed and approved by the Audit Committee and approved by the Board of Directors. The information that follows has taken into account all significant events that have occurred up to September 22, 2011, which was the date at which the independent auditor signed its report.

Forward-Looking Statements

This MD&A includes information that is forward-looking in nature. Such statements concern the future earnings of the Corporation, its operations, its financial results and its financial situation. Such forward-looking statements can be identified through use of expressions such as "believe", "foresee", "anticipate", "estimate", "expect" and other similar types of terms. Such statements are based on the information available at the time that they were made and on the good faith of management according to information available at this time. We wish to advise the reader that by their very nature forward-looking statements include an element of uncertainty and the actual results may be significantly different from the assumptions and estimations described in the forward-looking statements. The actual results will be affected by numerous factors over which the Corporation has no influence. Such factors are not limited to the ones described and reported under the heading "Risks and Uncertainties". Consequently, we recommend against placing undue trust in such forward-looking statements since future events and actual results may differ significantly from our forecasts. Unless otherwise stipulated

under current law, the Corporation does not intend to update these statements to take into account new facts or future events and it makes no undertaking to do so.

Description of the Corporation

Founded in 1999, SENSIO Technologies Inc. (www.sensio.tv) is a pioneer in the 3D industry. Its vision, expertise and state-of-the-art solutions, based on diversified stereoscopic image-processing technologies, have been trusted by some of the biggest names in the broadcasting and consumer electronics sectors, as well as for live 3D events in cinemas, to power numerous industry firsts, initiate new business models and generate immediate revenue with a distinctive 3D offering.

SENSIO enables its clients to deliver the best possible 3D experience for the end-user through a broad portfolio of licensed products, based on quality, content, usability and compatibility. These include its flagship, award-winning technology, SENSIO® Hi-Fi 3D, the premium-quality frame-compatible format.

SENSIO's technologies are the object of patents and intellectual property protection proceedings worldwide. SENSIO is listed on the Toronto TSX Venture Exchange (SIO).

Highlights of the Fiscal Year Ended May 31, 2011

- 80.8% increase in SENSIO's revenue for fiscal year 2010/2011 compared to 2009/2010;
- Acquisition of Algolith's intellectual property and know-how, reinforcing SENSIO's 3D image-processing offering;
- Addition of SENSIO® Autodetect to the range of solutions already offered by SENSIO;
- Transmission of high-profile live-3D events (FIFA, NBA All-Star Weekend);
- Expansion of cinema network equipped for live 3D : 842 screens on five continents;
- Chip strategy progressing well: five manufacturers signed : MediaTek, Broadcom, Trident Microsystems, Zoran for consumer electronics, joining Sigma Design signed end 2009/2010; GEO Semiconductor for professional equipment market;
- Presentation of the video-on-demand 3D content library during the fiscal year;

Review of FY 2010/2011

During this fiscal year, SENSIO realized its highest ever revenues, continuing the trend begun in the previous year. This growth is mainly due to the market of Live 3D in cinemas, which represents 81.1% of sales and which benefitted from the impetus provided by the 2010 FIFA World Cup™. Agreements with a number of major chip manufacturers in the consumer electronics market and the first patent licences for the SENSIO® S2D Switch were also marks of significant progress in realizing the Corporation's business plan. Finally, the acquisition of Algolith's intellectual property portfolio enabled us to better adapt our offering for the professional market, and to add several key employees to the engineering and sales teams.

Live 3D – sustained growth

During the fiscal year, SENSIO added 124 screens (up 17.3%) to the network of cinemas equipped with SENSIO[®] Hi-Fi 3D technology, bringing the SENSIO[®] 3D Live Network to 842 screens over five continents. At the beginning of the financial year, the 2010 FIFA World Cup™ was the impetus for the increase in revenues in the Live 3D market, and for the expansion of the network which had already begun shortly before the beginning of the fiscal year, in anticipation. Also, SENSIO began to explore the direct promotion of live-3D content to its network, following an agreement with the NBA (for the NBA All-Star Weekend and three regular season games), which enabled the development of a new line of business, which should be in operation as of fiscal year 2011/2012.

Consumer electronics – continuing our positioning

In order to reduce the length of the sales cycle with consumer electronics manufacturers, SENSIO has successfully pursued its strategy of integrating SENSIO[®] Hi-Fi 3D technology into chips destined for this market. Consequently, SENSIO has signed new agreements with five of the biggest manufacturers of semiconductors for consumer electronics, including MediaTek, Broadcom, Trident Microsystems and Zoran. Some of these integrations enabled discussions with new prospective clients in accordance with the strategy developed. With the introduction of SENSIO[®] Autodetect and the acquisition of the technologies developed by Algolith, SENSIO is now in possession, as of the end of the fiscal year, of a larger and more complete portfolio of products to be offered to semiconductor manufacturers beginning the first quarter of the next fiscal year, on a per-unit royalty basis.

At the same time, with the aim of enhancing the value of its SENSIO[®] Hi-Fi 3D format and increasing demand for it, the Corporation announced its 3D-content-aggregation strategy at CES 2011. During the financial year, SENSIO continued negotiating the rights with independent producers and major studios to make these films and documentaries in SENSIO[®] Hi-Fi 3D format available over VOD platforms. The Corporation was therefore able to announce an agreement with RoxioNow for the VOD distribution of its library of titles. These efforts should lead to the official launch of the content library this fall, and be accessible to consumers benefitting from equipment incorporating SENSIO[®] Hi-Fi 3D. Finally, SENSIO signed its two first patent licences for the SENSIO[®] S2D Switch, which began to generate revenues during the fiscal year 2010/2011.

Professional broadcasting equipment – a complete offer thanks to Algolith

At the beginning of December 2010, SENSIO acquired Algolith's intellectual property, including its portfolio of patents and the key personnel mastering its technologies. At the end of the fiscal year 2010/2011, the team had been integrated and the products aligned, enabling SENSIO to announce a complete stereoscopic 3D solution for professional equipment at the NAB tradeshow.

Operating Results

The following table presents certain financial data for the year and quarter ended May 31, 2011 and the respective comparisons.

Main Financial Information

	Fiscal years ending May 31 audited		Quarters ending May 31 non audited	
	2011	2010	2011	2010
Statement of results	\$	\$	\$	\$
Sales	1,253,267	693,368	94,955	274,942
Gross profit	1,225,538	535,967	91,894	258,402
Net loss and results	(4,512,934)	(3,174,454)	(1,602,647)	(852,100)
Net loss per common share diluted	(0.0870)	(0.0670)	(0.0306)	(0.0165)
Balance sheet				
Cash, cash equivalents and term deposit	6,095,732	10,569,648	6,095,732	10,569,648
Total assets	8,660,073	11,931,358	8,660,073	11,931,358
Long-term debt including short-term portion	-	129,600	-	129,600
Total liabilities	1,097,346	661,534	1,097,346	661,534
Shareholders' equity	7,562,727	11,269,824	7,562,727	11,269,824

Sales

For the fiscal year ended May 31, 2011, the Corporation's revenues from the sale of its products amounted to \$1,201,857 compared to \$669,595 in 2010, an increase of \$532,262 or 79.5%. This increase is attributable to the continuous rollout of the SENSIO[®] Hi-Fi 3D technology in 3D digital movie theatres (\$1,016,596 in 2011 versus \$353,501 in 2010), thus expanding the network of movie theatres equipped with SENSIO technology to include 842 theatres across five continents.

In 2011, revenues from the sale of other products or services offered by the Corporation more than doubled, rising from \$23,773 in 2010 to \$51,410, an increase of 116.3%. This increase is primarily attributable to professional services rendered on the professional market.

In the fourth quarter of fiscal 2011, the Corporation's revenues amounted to \$94,955 compared to \$274,942, a decrease of \$179,987 or 65.5%. This variance is primarily attributable to the fact that in the fourth quarter of fiscal 2010, decoder sales had increased in anticipation of the FIFA World Cup.

Gross Profit

The costs of sales include the following: the costs of parts, royalties on sales, and overhead, which consists of costs for subcontracts and professional services. The gross profit margin, both in dollars and on a percentage basis, can fluctuate due to numerous factors, such as sales volume, royalties, and the cost of procuring certain parts.

For the fiscal year ended May 31, 2011, SENSIO's gross profit margin was \$1,225,538 (97.8% of revenues) versus \$535,967 (77.3% of revenues) for 2010. Management's decision to sell software licences rather than hardware for encoders and decoders destined for the professional markets and Live 3D in fiscal 2009/2010 and the increase in licence sales for the SENSIO[®] Hi-Fi 3D technology enabled the Corporation to significantly improve its gross profit margin.

In the last quarter of fiscal 2011, SENSIO's gross profit amounted to \$91,894 (96.8% of revenues) compared to a profit margin of \$258,402 (94% of revenues) in the fourth quarter of 2010.

Operating Expenses

Selling Expenses

The Corporation's selling expenses consist of costs relating to the development of new business lines and products as well as marketing and selling efforts of these products. They include salaries, fees paid to strategic development partners, trade shows, promotion, travel for prospecting efforts, and depreciation on the equipment used by the Corporation's sales department.

Sales and marketing expenses amounted to \$2,954,231 for the year ended May 31, 2011 compared to \$1,834,632 the previous year, an increase of \$1,119,599 or 61%. This increase is primarily due to significant new marketing initiatives (new company image, promotional material, trade shows, etc.) to support the selling efforts and to the preparation of the announced upcoming launch of two new business lines (Live 3D event distribution in theatres and VOD content aggregation services). These efforts required the addition of staff to support marketing and market development efforts, the hiring of outside consultants specializing in business development in the U.S. and Asia, an increase in travel expenses due to the Corporation's promotional efforts in Asia and the U.S., and the costs of appearing at various trade shows, such as the National Association of Broadcasters Show (NAB) and the Consumer Electronics Show (CES).

During the fiscal year, the Corporation took steps to become involved in the distribution of live 3D events in movie theatres with a view to earning income from ticket sales to such events. The model was developed and trialled during the NBA All-Star weekend and following season games. The investment made in these tests has put SENSIO in a position to offer its current and future customers live 3D events so that its network will continue to profit from the benefits available through SENSIO's technology; it will also enable the Corporation to continue to expand its theatre network.

In the fourth quarter ended May 31, 2011, selling expenses totalled \$936,807 versus \$516,688 a year earlier. This \$420,119 or 81.3% increase can be explained by a higher payroll to support the Corporation's market development efforts, non-recurring fees paid to outside consultants specializing in marketing and business development, trials conducted with a view to involving the Corporation in the distribution of live 3D events so it can expand its content offer, and isolated travel expenses to promote SENSIO's technologies.

Research and Development Expenses

Research and development expenses primarily consist of salaries for the employees in that department, materials required for project development, fees paid by the Corporation to carry out these projects, and depreciation on the equipment used in research and development work. Research and development expenses are presented net of R&D tax credits and net of other non-refundable sources of funding.

Research and development expenses totalled \$971,191 for the fiscal year ended May 31, 2011 (net of related tax credits in the amount of \$228,472) compared to \$516,119 in the comparative year (net of related tax credits in the amount of \$98,222). This \$455,072 or 88.2% increase is explainable primarily by an increase in the payroll further to the acquisition of Algolith's resources and an increase in the costs related to new research and development projects.

In the last quarter of the year ended May 31, 2011, research and development expenses totalled \$216,857 compared to \$176,514 in 2010, an increase of \$40,343 or 22.9%. The increase in research and development expenses can be explained primarily by an increase in the payroll for that department and in the costs related to the Corporation's various projects.

In the coming quarters the Corporation will continue to invest in research and development with a view to developing new products to be brought to market in future. These will enable the Corporation to demonstrate the full scope of the added value it can bring to its customers so they can increase their market shares and realize the added value of the technologies developed by SENSIO.

Administrative Expenses

Administrative expenses essentially consist of expenses for administrative personnel, professional fees, administrative costs, expenses related to administering a public Corporation, depreciation on tangible fixed assets used by the administration department, and depreciation on intangible fixed assets.

Administrative expenses amounted to \$1,673,529 for the year ended May 31, 2011 compared to \$1,279,443 the previous year, an increase of \$394,086 or 30.8%. This variance is attributable to the following factors:

- A \$248,666 increase in the Corporation's operating expenses due to the expansion of its premises and the addition of resources;

- Legal expenses of \$70,000 in connection with the Algolith acquisition;
- A \$56,584 increase in public Corporation expenses;
- A \$93,280 increase in depreciation expenses.

In the fourth quarter of fiscal 2011, administrative expenses totalled \$520,298 compared to \$404,525 in the fourth quarter of the previous year, an increase of \$115,773 or 28.6%. This increase is primarily attributable to a higher payroll for this department and an increase in the Corporation's operating costs.

Financial Expenses

Financial expenses primarily represent interest on the Corporation's long-term debt, the various financing costs it must incur, and foreign exchange gains or losses.

For the year ended May 31, 2011, the Corporation's financial expenses totalled \$45,690 compared to \$30,819 as at May 31, 2010, an increase of \$14,871 or 48.3%. This variance is explainable by a foreign exchange loss of \$39,474, which is partially offset by the fact that the Corporation no longer has to pay interest, as its long-term debt was repaid during the fiscal year.

In the fourth quarter of 2011, financial expenses amounted to \$5,550 compared to \$2,122 in 2010. The increase can be explained by a foreign exchange loss of \$3,025.

Interest Income

In the fiscal year ended May 31, 2011, the Corporation earned \$109,309 in interest compared to \$46,921 the previous year. This variance can be explained primarily by the average balance of the term deposit, which was higher in fiscal 2011.

Net Loss

In the fiscal year ended May 31, 2011, SENSIO increased its loss by \$1,338,480 or 42.2%, from \$3,174,454 (\$0.0670 per share) for the year ended May 31, 2010 to \$4,512,934 (\$0.0870 per share). As explained above, the increase in the net loss was necessary for the execution of management's strategic plan for the Corporation.

For the fourth quarter of the year, the net loss amounted to \$1,602,647 (\$0.0306 per share) compared to \$852,100 (\$0.0165 per share) for the comparative period in 2010.

Cash Position and Sources of Financing

As at May 31, 2011, the Corporation had \$6,095,732 in the form of cash and cash equivalents and temporary investments compared to \$10,569,648 as at May 31, 2010. The cash and cash equivalents consist of bank balances. The temporary investment consists of a term deposit that was bearing interest at a rate of 0.75% as of May 31st, 2011 and that was increased to 1.28% at the renewal in June 2011.

Operating Activities

In the year ended May 31, 2011, operating activities utilized cash flow of \$3,325,649 compared to \$2,972,348 in the comparative period the previous year, an increase of \$353,301 or 11.9%. The principal variances that led to this result are:

- A \$1,338,480 increase in the Corporation's loss;
- A \$136,781 increase in depreciation expenses for tangible and intangible assets;
- A \$191,558 increase in option-based remuneration expenses, which rose from \$209,888 for the year ended May 31, 2010 to \$401,446 for the year ended May 31, 2011;
- For the year ended May 31, 2011, the related working capital items varied by \$669,782. This variance is due to the receivables having decreased by \$4,579 in 2010-2011 compared to a \$179,577 increase the previous year, and the supplier accounts and expenses payable having increased by \$316,788 in this fiscal year compared to a \$104,588 decrease in this item in the previous fiscal year.

Investment Activities

Cash flow relating to investment activities generated liquidity of \$3,127,030 in the year ended May 31, 2011, whereas \$10,021,071 was absorbed by investment activities the previous year, a variance of \$13,148,101. In fiscal 2011, the Corporation withdrew \$4,574,388 from its term deposit, while the previous year it had deposited an amount of \$9,825,244.

During the year ended May 31, 2011, the Corporation bought certain of Algolith's assets, which required liquidity of \$586,000. Meanwhile, pursuing its expansion plans, the Corporation invested \$408,984 in tangible fixed assets compared to \$46,034 a year earlier, an increase of \$362,950. The Corporation also invested \$148,231 in its patents, compared to \$149,793 during the previous fiscal year. Finally, in the pursuit of its strategy to penetrate the video-on-demand market, the Corporation acquired film distribution rights at a cost of \$304,143.

Financing Activities

Cash flow related to financing activities generated liquidity of \$299,091 in the year ended May 31, 2011 compared to \$12,885,808 a year earlier. The principal financing activities in 2011 were:

- Loan repayment of \$153,600 in fiscal 2011 compared to \$164,700 a year earlier.
- Influx of \$404,391 further to the exercise of warrants and options in this fiscal year compared to \$3,930,445 in the year ended May 31, 2010 (this amount excludes the closing of a \$10,016,500 bought deal private placement);
- Obtaining of a \$48,300 lease inducement.

Contractual Commitments

Pursuant to a lease agreement expiring in November 2015, the Corporation has committed to pay an amount of \$400,643 for the lease of premises. The minimum payments in the next five fiscal years amount to:

May 31, 2012	\$97,524
May 31, 2013	\$99,232
May 31, 2014	\$98,130
May 31, 2015	\$97,529
May 31, 2016	<u>\$8,228</u>
Total	<u><u>\$400,643</u></u>

Financial Situation

Assets

As at May 31, 2011, SENSIO had total assets of \$8,660,073 compared to \$11,931,358 a year earlier, a decrease of \$3,271,285 or 27.4%.

As at May 31, 2011, SENSIO had \$6,095,732 in cash and term deposits compared to \$10,569,648 as at May 31, 2010.

The Corporation's receivables totalled \$440,894 at the end of the fiscal year compared to \$436,315 a year earlier, an increase of \$4,579.

The Corporation increased its inventory, which rose from \$127,354 as at May 31, 2010 to \$163,558 as at May 31, 2011, an increase of \$36,204. The reason for this increase is the acquisition of some of Algolith's inventory.

Tangible fixed assets increased by \$246,848, from \$392,533 in 2010 to \$639,381 in 2011. This variance is primarily attributable to the expansion of the Corporation's premises, which cost \$143,066. Intangible fixed assets increased by \$342,936, from \$328,969 in 2010 to \$671,905 in 2011. This variance is primarily attributable to the acquisition of some of Algolith's assets, including a patent family valued at \$252,000.

Further to the Algolith acquisition, goodwill of \$316,905 was recorded. A depreciation test will be done every year to determine the fair value of this goodwill. As at May 31, 2011, management believes it is not necessary to depreciate the value of the goodwill.

Finally, in pursuance of its strategy to penetrate the video-on-demand market, the Corporation paid \$304,143 to buy film distribution rights with a view to rolling out its content library.

Liabilities

As at May 31, 2011, the Corporation's total liabilities amounted to \$1,097,346 compared to \$661,534 as at May 31, 2010, an increase of \$435,812. This increase can be explained primarily by a \$571,859 increase in supplier accounts and expenses payable offset by a \$129,600 reduction of the Corporation's debt.

Shareholders' Equity

As at May 31, 2011, the shareholders' equity in the Corporation stood at \$7,562,727 compared to \$11,269,824 as at May 31, 2010. This variance is attributable to the factors described in the following paragraphs and in the Corporation's results for the year ended May 31, 2011.

During the year ended May 31, 2011, the Corporation issued 298,333 common shares further to the exercise of the same number of warrants. In consideration of the issuance of those shares, the Corporation received \$119,333. An amount of \$41,614 was credited to the Corporation's share capital and debited against the contributed surplus.

In fiscal 2011, the Corporation also issued 593,515 common shares further to the exercise of an equivalent number of stock options. In consideration of the issuance of those shares, the Corporation received \$285,058. An amount of \$230,781 was credited to the Corporation's share capital and debited against the contributed surplus.

As at May 31, 2011, the Corporation had 52,485,297 shares outstanding. In July 2011, the Corporation issued 2,500 shares further to the exercise of the same number of stock options. The Corporation received \$750 in cash for the issue. As at the filing date of this Management Discussion and Analysis, the Corporation had 52,487,797 shares outstanding. The following table shows the number of securities outstanding as at September 22, 2011.

Description	Outstanding
Shares issued and paid up	52,487,797
Share purchase options	2,229,995

Quarterly Information

The operating results for each of the last eight quarters are presented in the following table. Management considers that the information for each of those quarters was determined in the same way as for our audited financial statements for the fiscal year ended May 31, 2011. Our non-audited quarterly financial statements have not been reviewed by our external auditors.

2011				
	Q1	Q2	Q3	Q4
	\$	\$	\$	\$
Sales	631,547	116,114	410,651	94,955
Gross profit	624,640	103,378	405,626	91,894
Net loss	(408,154)	(1,172,978)	(1,329,155)	(1,602,647)
Net loss per share	(0.0079)	(0.0227)	(0.0256)	(0.0306)
Average number of shares	51,595,949	51,595,949	51,991,054	52,371,058

2010				
	Q1	Q2	Q3	Q4
	\$	\$	\$	\$
Sales	210,161	184,247	24,018	274,942
Gross profit	119,459	134,471	23,635	258,402
Net loss	(453,462)	(645,194)	(1,223,698)	(852,100)
Net loss per share	(0.0108)	(0.0140)	(0.0245)	(0.0165)
Average number of shares	42,041,648	45,941,992	49,937,819	51,555,216

Significant Accounting Policies

The Corporation prepares its unaudited financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), which require management to make estimates and assumptions that affect the amounts of its assets and liabilities, the information provided with regard to future assets and liabilities as of the date of the quarterly financial statements, as well as the amounts of revenues and expenses for the relevant periods. The elements in the financial statements that require more use of estimates include the provision for bad debt, the provision for the devaluation of inventories, the provision for the receivable research and development tax credit, capital assets and intangible assets. Actual results may differ from these estimates, but according to management they do not result in material changes versus the results being presented. The Corporation’s accounting policies are presented in Note 3 to the audited financial statements for its fiscal year ended May 31, 2011.

Revenue Recognition

Revenues are recognized when there is an agreement between the parties, the amount of the transaction is determined or can be determined, delivery has taken place and collection is reasonably assured. Amounts billed or received that do not meet the revenue recognition criteria are recorded as deferred revenue. Interest income is accounted for based on the number of days the investment is held during the fiscal year and is calculated based on the effective interest rate.

Distribution Rights

Distribution rights relate to film distribution activities. The costs include the costs of acquiring the film rights and the various costs that are incidental to those rights. The amounts paid for distribution rights are listed under the heading “Distribution Rights.” The distribution rights are recognized in the cost of goods sold on a unit-of-production basis.

Research and Development Tax Credits

Research and development tax credits are recorded net of research and development expenses for the fiscal years in which said expenses are incurred, provided that the Corporation is reasonably certain that such credits will be awarded. Research and development tax credits must be analyzed and approved by tax authorities, meaning that final amounts may differ from recorded amounts.

Stock Option Plan

The Corporation offers a stock option plan for which it applies a fair value method to record stock option distribution to wage and non-wage employees. The fair value of stock options offered to wage earners is set on the date of distribution, through an option analysis model, and the compensation expense is based on the option acquisition period. Any consideration paid by wage or non-wage employees upon the exercise of options, as well as contribution surplus related to said options, will be included in the share capital account.

Accounting changes

In January 2009, the CICA published Section 1582, «Business combinations», replacing Section 1581 which bears the same title. Section 1582’s objective is to improve the relevance, reliability and comparability of information relating to a business combination and to its effects on the financial statements of the reporting entity. Section 1582 is applicable to business combinations where the acquisition date occurs in a financial year beginning on or after January 1, 2011. Since June 1, 2010, the Corporation has adopted Section 1582 by anticipation. Consequently, the acquisition of Algorith’s assets described in Note 8 was accounted for in accordance with the requirements of Section 1582.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian GAAP will be fully aligned with the IFRS published by the International Accounting Standards Board (“IASB”). The Corporation must therefore convert and present its interim and annual financial statements for the 2012 fiscal year according to IFRS and disclose comparative information consistent with IFRS for the 2011 fiscal year.

The conversion process consists of four phases.

Phase 1 “Diagnostic” (including training)

Phase 2 “Valuation”

Phase 3 “Solution”

Phase 4 “Implementation”

During the valuation phase, the only relevant difference that the Corporation identified concerned the initial valuation of the stock options granted to service providers. Further to the valuation process for these options in accordance with IFRS standards, the Corporation concluded that the conversion to IFRS would not entail any material discrepancies. As for other types of assets or liabilities, the Corporation opted for accounting conventions similar to those used for financial statements prepared according to Canadian GAAP. For instance, the cost model was retained for the valuation of tangible and intangible fixed assets.

The Corporation will be able to comply with the instructions from the Autorités des marchés financiers and the Institute of Chartered Accountants on the dates set by those bodies for their application. Also, the Company may avail itself of the 30-day extension allowed by the Autorités des marchés financiers before reporting its Q1 2012 financial results.

Controls and Procedures for Reporting Information

The CEO, the CFO and other management team members have developed controls and procedures for the presentation of information to ensure that important financial information about the Corporation will be appropriately recorded, processed, summarized and reported to the Corporation’s audit committee and board of directors. The CEO and the CFO assessed the effectiveness of the communication controls and procedures for financial reporting as at the end of the 2011 fiscal year. Further to this assessment, they concluded that the controls and procedures in place are effective, and that important information pertaining to the management reports (MD&As), the quarterly financial statements, the year-end financial statements and other documents that must be filed, provide reasonable assurance that all of the Corporation’s material information is being reported in an efficient manner.

As part of the evaluation process for the development of communication controls and procedures for financial reporting by the CEO and CFO, it was established that stricter management supervision of controls and procedures should compensate for the deficiency related to the segregation of duties, a situation which can be attributed to the size of the Corporation.

Risks and Uncertainties

The Corporation is involved in an industry that is subject to various risks and uncertainties. The risks and uncertainties listed below are not the only ones to which the Corporation is subject. Additional risks and uncertainties of which the Corporation is not aware at the moment or to which it does not currently assign importance could also be harmful to its performance. The materialization of any of the following risks, without limitation, could harm the Corporation’s activities and have significant adverse impacts

on its financial position and operating results. In that case, the Corporation's stock price could be affected.

Future Capital Requirements

The Corporation has posted operating losses in recent fiscal years. The ability of the Corporation to discharge its obligations and finance its future activities depends on its ability to achieve a level of profitability or support from its shareholders and its creditors. Nothing guarantees that the Corporation will be able to attract the capital required to continue to develop and market its technologies. In the event that the Corporation does not manage to find additional capital, this could have adverse impacts on its activities, revenues, financial position and operating results.

Inability to Implement the Established Strategy

The Corporation's growth is dependent on its ability to implement the established strategy. Nothing guarantees that management will succeed in implementing it successfully.

Uncertain Adoption of the Experience by the Consumer Market

Despite the recent success of 3D movies in theatres, consumers could decide not to bring that reality home. Nothing guarantees that the products integrating the Corporation's technology will be adopted by consumers. In the event consumers do not buy those products, there could be an adverse impact on the Corporation's activities, revenues, financial position and operating results.

Competition

The Corporation is evolving in a relatively new and competitive field. New players, new alliances and new technological solutions could appear. However, nothing can guarantee how quickly customers will adopt those products or how quickly the competition will develop similar products.

Economic Dependency

One client represented 54% of Corporation sales for the year ending May 31, 2011. Although this client, as distributor, will remain an important partner in the coming years, the Corporation believes that the level of dependency will decrease as its sales grow. However, if this client should decide to reduce, delay or discontinue the current or forecasted purchases this may have adverse impacts on the Corporation's activities, revenues, financial position and operating results.

Economic Situation

Unfavourable changes in the world economy could have an adverse impact on the Corporation's financial results. The situation could influence the purchase of electronic products by consumers and directly affect the Corporation's revenue.

Exchange Risk

Because the Corporation makes most of its sales in US Dollars and because it incurs the majority of its expenses in Canadian Dollars, its revenues and profitability are influenced

by the fluctuation of Canadian currency versus other currencies, in particular the US Dollar. The Corporation's ability to adjust its selling prices to take into account fluctuations in exchange rates is limited. At the moment, the Corporation does not hedge its currency risk.

Scope and Validity of Intellectual Property

The Corporation's patents could be incomplete, invalid, disputed or refused. It is possible that the patents applied for will not be granted or not provide the desired protection. This could result in legal actions. Such litigation could entail significant expense, without any guarantee as to a positive outcome. The loss of any intellectual property could have adverse effects on the Corporation's activities and financial position.

Inability to Support the Defence of its Intellectual Property

The Corporation could eventually have to assert the legitimacy of its intellectual property when dealing with a prospective customer. Depending on that customer's stature, it could decide to disregard the Corporation's patent and contravene it. The Corporation's ability to defend its rights depends on having the funds needed for any such defence or forming an alliance with a partner having this expertise.

Risk of Infringement

The Corporation's success depends on its ability to sell technologies that do not infringe other intellectual property rights. Other parties could own, or claim to own, intellectual property similar to that developed by the Corporation. The Corporation cannot determine the scope of such patents or those of a third party with certainty. If the Corporation were to infringe a patent belonging to a third party, there could be a material impact on its future results.

Uncertainty as to the Ability to Have the Corporation's Technology Recognized as an Industry Standard

Various standardization bodies for the industry in which the Corporation is active handle the determination of standards to ensure compatibility for the transfer of 3D content between the numerous electronic products in the distribution chain. In order to become a standard, the Corporation has to convince a multitude of parties around the world. If the Corporation fails to do this its future results could be materially affected.

Inability to Integrate the Corporation's Technology in the Electronic Chips of Semi-Conductor Companies

The Corporation's business model is based on generating revenue from the sale of licences for decoders integrated in electronic products destined for the consumer market. Under this type of business model, a semi-conductor Corporation must integrate the Corporation's technology in an electronic chip. That electronic chip will then be sold to the manufacturers of electronic products destined for the consumer market. The Corporation does not manufacture electronic chips. The revenue generated by the Corporation therefore depends on semi-conductor companies' deciding to integrate the Corporation's technology and selling that chip to the manufacturers of electronic consumer products. If those companies were to decide not to integrate the Corporation's

technology or not to sell the electronic chip integrating that technology, the Corporation's future results could be materially affected.

Computer System Infrastructure

Management has identified a potential risk of business interruption related to the lack of an active fire protection system in central computer system room.

Current practice has all critical data copied off-site to minimize any impact on the business. Contingency planning is under way as part of a more comprehensive risk mitigation strategy.

The Loss of Management Members Could Have a Material Impact on the Implementation of the Corporation's Strategic Plan

The success of the Corporation's business plan depends significantly on the work done by the management team. This team consists of a limited number of individuals. The Corporation does not carry life insurance on those individuals. The loss of a member of management could hinder the execution of the Corporation's strategic plan, which could have a material impact on its operations.

Management believes it monitors these risks very closely. It is constantly watching each of these elements and takes the necessary action to mitigate its risks.

More information about the Corporation can be obtained on the SEDAR website (www.sedar.com).

Montreal, September 22, 2011