

Management's Discussion and Analysis

**FRONTLINE TECHNOLOGIES INC.**  
(FORMERLY BELZBERG TECHNOLOGIES INC.)

Three and nine months ended September 30, 2011 and 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") of Frontline Technologies Inc., formerly Belzberg Technologies Inc. ("Frontline" or the "Company") for the three and nine months ended September 30, 2011 is dated November 10, 2011. Effective January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the nine months ended September 30, 2011, the Company's audited Canadian GAAP Consolidated Financial Statements and the accompanying notes for the year ended December 31, 2010, and the MD&A included in the Company's 2010 Annual Report. In 2010, the CICA Handbook was revised to incorporate IFRS and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis and in this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Comparative information for periods from January 1, 2010 onwards has been restated in accordance with IFRS. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) Frontline Technologies Inc.

### **Caution regarding forward-looking statements**

This MD&A contains certain forward-looking statements that reflect Management's expectations, estimates, forecasts and projections about future performance, opportunities for growth, and the Company's future plans and intentions. Forward-looking statements are typically identified by words such as "believe", "expect", "may", "intend" and "plan". Forward-looking statements involve significant risk, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by these forward-looking statements. Some of the factors that could cause such differences include: the regulations governing the securities industry, competition for global trading solutions and intelligent order routing systems, customer dependence, ability to attract and retain key employees, technological changes, uncertainty of the ability to protect proprietary technology, and product and service liability. The preceding list is not exhaustive of all possible factors. Other factors could also affect the Company's results. For a more detailed discussion of these factors refer to the section titled "Risks and Uncertainties" in this MD&A. All factors should be considered carefully when making decisions with respect to the Company and undue reliance should not be placed on the Company's forward-looking statements. The Company does not undertake to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

## Nature of Business

Frontline Technologies Inc. ("the Company") is a provider of trading systems and a suite of IT outsourced network services. Using Frontline's suite of integrated trading tools and network connectivity, the Company's customers have direct access to North American equities and options markets. Frontline's products and services enable traders to execute and manage large volumes of transactions with reliability and security. The Company's IT outsourced network services include infrastructure support, VOIP services and network management services to its professional, financial and investment banking clients.

In 2001, the Company acquired a broker-dealer that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

In 2002, the Company's wholly owned subsidiary, Electronic Brokerage Systems, LLC, became a member of both the National Securities Clearing Corporation ("NSCC") and the New York Stock Exchange ("NYSE"). These memberships allowed the Company to become self-clearing.

In 2008, the Company was approved by the Financial Industry Regulatory Authority to provide full clearing services.

In 2011, the Company announced a strategy to refocus on its technology business and a definitive agreement was made to acquire Frontline Technologies Corporation by the Company. The transaction closed on April 13, 2011. At the same time on April 13, 2011, the Company changed its name from Belzberg Technologies Inc. to Frontline Technologies Inc.

On February 23, 2011, the Company announced that it had entered into an agreement to refer most of the clients of its US execution businesses operated under its wholly-owned subsidiaries, Electronic Brokerage Systems, LLC ("EBS") and R.C. Sheehan and Associates, LLC ("RCS"), to BNY ConvergeEx Execution Solutions LLC and LiquidPoint LLC (collectively "ConvergeEx"). The Company has classified these subsidiaries as discontinued operations and assets held for sale. During the second quarter of 2011, the Company successfully referred all of the clients of RCS to ConvergeEx, however, no customers of EBS were referred. During the third quarter, the Company entered into an agreement amending the terms of their original agreement entered into on February 23, 2011. Under the amended terms, ConvergeEx paid to the Company US\$1.8 million in full satisfaction of all its obligations under the Agreement. The Company will be released from all of its obligations under the agreement except for certain restrictive covenants including those relating to the referred clients of RCS and certain representations made with respect to the referred clients of RCS. As a result of the amendment to the terms of the referral agreement, the Board of Directors and management of the Company are assessing the Company's options, including with respect to EBS and its business, and the related effect on its ability to pay a special distribution to the holders of its common shares and on the holders of its common shares.

At the Annual and Special General Meeting held on May 27, 2011, the shareholders approved a resolution whereby the stated capital of the Common shares and the Class A Restricted shares were each reduced to \$1.00.

During the quarter, the Company was notified by the Toronto Stock Exchange (the "TSX") that the TSX is reviewing the eligibility for continued listing on the TSX of the Corporation's common shares. The Company has not met the requirement that the market value of its freely-tradable, publicly held securities be more than \$2.0 million and the market value of listed securities be more than \$3.0 million over any period of 30 consecutive trading days. The Corporation is actively working towards meeting the TSX minimum requirements within the granted time and is also reviewing listing criteria for other Canadian stock exchanges.

## Financial Overview

### Highlights of Third Quarter 2011 Results

- Revenue from continuing operations increased by 53% to \$1.9 million for the third quarter of 2011 from \$1.3 million in the same quarter of the previous year and increased by 25% to \$5.1 million for the nine months ended September 30, 2011 from \$4.1 million for the nine months ended September 30, 2010.
- Loss from continuing operations of \$2.4 million or (\$0.10) per share for the third quarter of 2011 as compared to a loss from continuing operations of \$1.7 million or (\$0.11) per share in the same quarter of the previous year. The loss from continuing operations for the nine months ended September 30, 2011 was \$6.3 million or (\$0.32) per share compared to a loss from continuing operations of \$4.9 million or (\$0.34) per share for the nine months ended September 30, 2010.
- Income from discontinued operations for the three months ended September 30, 2011 of \$1.9 million or \$0.08 per share includes the gain on the referral of the clients of RCS of \$1.8 million. This compares to a loss of \$97,000 or (\$0.01) per share in the comparable 2010 quarter. The income from discontinued operations for the nine months ended September 30, 2011 was \$1.5 million or \$0.07 per share compared to a loss of \$289,000 or (\$0.02) per share for the nine months ended September 30, 2010. The clients of EBS were not referred to ConvergeEx. As described above, the original agreement was amended and the clients of EBS will not be referred to ConvergeEx.
- Loss of \$0.5 million or (\$0.02) per share for the third quarter of 2011 as compared to a net loss of \$1.8 million or (\$0.12) per share in the same year-ago quarter. The loss for the nine months ended September 30, 2011 amounted to \$4.8 million or (\$0.25) per share compared to \$5.2 million or (\$0.36) per share for the same period of 2010.
- Working capital position of \$4.8 million at September 30, 2011 as compared to \$10.3 million at December 31, 2010.
- Operating expenses from continuing operations increased by 48% from \$2.9 million in the third quarter of 2010 to \$4.2 million for the third quarter of 2011. Operating expenses from continuing operations for the nine months ended September 30, 2011 were \$11.3 million compared to \$8.9 million in the comparable period of 2010. One-time acquisition-related and restructuring expenses included in operating expenses were \$382,000 for the three months ended September 30, 2011 and \$1,032,000 in the nine-month period.
- The acquisition of Frontline Technologies Corporation announced during the first quarter of 2011 was completed on April 13, 2011. The results of Frontline Technologies Corporation are included in the above reported results from April 13, 2011.
- The third quarter of 2011 presented a challenging economic and operating environment for the Company with the continued reduction of subscription based revenues as customers cancelled seats either as a result of cost cutting measures or the implementation of alternative solutions. In the third quarter of 2011, the Company continued the review of its cost structure, including headcount, market data and telecommunications and occupancy, given the continuing lower revenues and as a result of the acquisition of Frontline Technologies Corporation. The elimination of duplicate expenses was completed in the third quarter. The Company reduced its headcount in the first nine months of 2011 by 4% when compared to the headcount at December 31, 2010. Compensation expense from continuing operations was \$498,000 higher in the third quarter of 2011 as compared to the same

year-ago quarter. As a result of the acquisition of Frontline Technologies Corporation, severance expense to eliminate redundant expenses was incurred during the third quarter of 2011. Telecommunication and datafeed service costs from continuing operations was \$81,000 higher in the third quarter of 2011 versus the same year-ago quarter as a result of the acquisition of Frontline Technologies Corporation. Administrative and other expenses were \$1.7 million in the third quarter of 2011, compared to \$923,000 in the same quarter in the previous year. During the quarter, the company incurred a lease cancellation fee of \$341,000 and acquisition-related expenses of \$41,000 resulting from the acquisition of Frontline Technologies Corporation.

## **Strategy and Significant Developments**

The Company's focus is on improving its operating results through cost savings, infrastructure changes and increasing revenues.

On February 23, 2011, the Company announced a change in its strategic direction to refocus on its technology business. The Company announced a definitive agreement to merge with Frontline Technologies Corporation through an acquisition of Frontline Technologies Corporation by the Company ("Frontline Transaction"). The acquisition was approved by shareholders and completed on April 13, 2011. Under the terms of the agreement, the shareholders of Frontline Technologies Corporation received \$1 million in cash plus 7,881,826 Class A Restricted Shares of the Company. Each Class A Restricted Share is convertible into common shares of the Company on a 1 for 1 basis subsequent to the special distribution described below. The holders of the Class A Restricted Shares are entitled to one vote per share but will not be entitled to receive dividends until the special distribution described below is paid in full. Following the closing of the transaction the former shareholders of Frontline Technologies Corporation own approximately 35% of the Company's outstanding shares. At the same time, on April 13, 2011, the Company changed its name from Belzberg Technologies Inc. to Frontline Technologies Inc.

Frontline Technologies Corporation offers infrastructure as well as a varied suite of IT outsourced network services to clients in the financial industry including a comprehensive platform for managing various aspects of trading including order management, position management, post trade matching and electronic ticketing. The combined entity, will establish a larger, more diversified and competitive provider of services and technologies for the professional trading community. Together, the combined company will also benefit from cost savings and synergies in operations, infrastructure and administration.

As part of this new strategic direction, the Company also announced on February 23, 2011, that it had entered into an agreement to refer most of the clients of its US execution businesses operated under its wholly-owned subsidiaries, EBS and RCS, to ConvergeEx. During the second quarter, the Company successfully referred the clients of RCS to ConvergeEx. The clients of EBS were not referred to ConvergeEx. During the third quarter, the Company entered into an agreement amending the terms of the original agreement. Under the amended terms, ConvergeEx paid to the Company US\$1.8 million in full satisfaction of all its obligations under the Agreement. The Company will be released from all of its obligations under the agreement except for certain restrictive covenants including those relating to the referred clients of RCS and certain representations made with respect to the referred clients of RCS. The operating results and cash flows of EBS and RCS are presented as discontinued operations in the third quarter and for the nine-month periods. The assets and liabilities of EBS and the residual assets of RCS are presented as assets held for sale with the exception of unrestricted cash.

It is the Company's intention to pay a special distribution to the holders of its existing common shares within a year of the closing of the Frontline Transaction. The amount of the distribution, if any, will be equivalent to the amount by which the working capital of the Company as of closing of the Frontline Transaction exceeds \$2.75 million plus the total proceeds received for the referral of the US execution clients of EBS and RCS, less any costs related thereto or to the sale or wind-up of the businesses of EBS and RCS which cannot be reasonably estimated at this time. The Board of Directors and management of the Company are assessing the Company's options, including with respect to EBS and its business, and

the related effect on its ability to pay a special distribution to the holders of its common shares and on the holders of its common shares.

## Overview of Business Segments

The Company operates in two distinct business segments: (i) Trading Technologies and (ii) Outsourced Network Services.

The Company provides trading technologies for order management and routing software for the financial services industry. The Company's customers, who include both broker-dealers and their customers, use the Company's trading software to buy and sell equities and stock options on a variety of exchanges and electronic markets.

The Company provides outsourced network services including IT infrastructure management, technical support, managed email and file hosting, disaster recovery planning and network sales; a suite of services designed to comprehensively meet the technology needs of, and offer "one stop shopping" for its professional, financial and investment banking clients.

## Selected Financial Information

The table below sets out selected quarterly information for the Company:

(\$000's except per share amounts)	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Variance	2011	2010	Variance
Revenue	\$ 1,923	\$ 1,259	\$ 664	\$ 5,079	\$ 4,058	\$ 1,021
Compensation and related benefits	1,429	931	498	4,013	2,896	1,117
Telecommunication and data-feed services	1,091	1,010	81	3,299	3,122	177
Administrative and other	1,729	923	806	3,966	2,868	1,098
<b>Operating expenses</b>	<b>4,249</b>	<b>2,864</b>	<b>1,385</b>	<b>11,278</b>	<b>8,886</b>	<b>2,392</b>
Loss before the undernoted	(2,326)	(1,605)	(721)	(6,199)	(4,828)	(1,371)
Foreign exchange loss	51	58	(7)	106	110	(4)
Interest expense	12	-	12	17	1	16
Interest income	-	-	-	-	(2)	2
	63	58	5	123	109	14
Loss from continuing operations	(2,389)	(1,663)	(726)	(6,322)	(4,937)	(1,385)
Income (loss) from discontinued operations	1,900	(97)	1,997	1,491	(289)	1,780
<b>Loss for the period</b>	<b>\$ (489)</b>	<b>\$ (1,760)</b>	<b>\$ 1,271</b>	<b>\$ (4,831)</b>	<b>\$ (5,226)</b>	<b>\$ 395</b>
Income (loss) per share - basic and diluted						
Loss from continuing operations	\$ (0.10)	\$ (0.11)	\$ 0.01	\$ (0.32)	\$ (0.34)	\$ 0.02
Income (loss) from discontinuing operations	0.08	(0.01)	0.09	0.07	(0.02)	0.09

Each investor should read the information in conjunction with those financial statements and related notes. The selected financial information for the quarterly periods for 2011 and 2010 has been prepared in accordance with IFRS. The operating results are not necessarily indicative of results for any future period. The selected financial information for 2011 and 2010 has been derived from the unaudited condensed interim consolidated financial statements.

## Results of Operations

For the third quarter ended September 30, 2011

(\$000's)	2011			2010		
	Trading Technologies	Outsourced Network Services	Total	Trading Technologies	Outsourced Network Services	Total
<b>Statement of Income (Loss)</b>						
Revenues from external customers	\$ 1,083	\$ 840	\$ 1,923	\$ 1,259	-	\$ 1,259
<b>Expenses</b>						
Compensation and related benefits	856	573	1,429	931	-	931
Telecommunication and data feed services	751	340	1,091	1,010	-	1,010
Administrative and other	1,414	315	1,729	923	-	923
	3,021	1,228	4,249	2,864	-	2,864
<b>Loss before the undernoted:</b>	<b>(1,938)</b>	<b>(388)</b>	<b>(2,326)</b>	<b>(1,605)</b>	<b>-</b>	<b>(1,605)</b>
<b>Other income (loss)</b>						
Foreign exchange loss	(50)	(1)	(51)	(58)	-	(58)
Interest expense	(2)	(10)	(12)	-	-	-
<b>Loss from continuing operations</b>	<b>\$ (1,990)</b>	<b>\$ (399)</b>	<b>\$ (2,389)</b>	<b>\$ (1,663)</b>	<b>-</b>	<b>\$ (1,663)</b>

### Revenue from Continuing Operations

Revenue from continuing operations increased by 53% from \$1.3 million in the third quarter of 2010 to \$1.9 million in the third quarter of 2011.

The Company's revenue in the Trading Technologies segment is driven by subscription licence fees which is based on customers paying a fixed monthly or a variable related fee for use of the Frontline's trading systems and connectivity to the Frontline's network on a per terminal or other contracted basis. Revenue from these licence fees decreased by 15% in the third quarter of 2011 to \$0.9 million from \$1.0 million in the third quarter of 2010. This decrease resulted from price adjustments and from the cancellation of terminals by customers either downsizing their trading desks or implementing alternative solutions reduced by the addition of licence fees from the Frontline acquisition. There was also a shift of certain fixed based revenues to variable based revenues as the Company transitions certain customers to a transaction based model. This segment also generates other revenue which includes revenue from information distribution, software development fees, installation fees and recovery of telecommunication charges. This revenue decreased by 11% to \$231,000 in the third quarter of 2011 from \$261,000 in the third quarter of 2010. The decrease related mainly to lower information distribution revenues and lower recovery of telecommunication charges.

As a result of the Frontline acquisition, the Company entered a new reportable segment, Outsourced Network Services. This contributed \$0.8 million of revenue during the third quarter.

### Expenses from Continuing Operations

#### Compensation and Related Benefits

Compensation and related benefits comprise the payroll cost, incentive compensation to employees and any stock-based compensation related to the grant of stock options to employees and directors.

Compensation and related benefits in the Trading Technologies segment decreased by 8% to \$856,000 for the quarter ended September 30, 2011 from \$931,000 million for the quarter ended September 30, 2010. The decrease can be attributed to downsizing as a result of lower revenues.

The compensation and related benefits in the Outsourced Network Services segment are as a result of the Frontline acquisition

### **Telecommunication and Datafeed Services**

Telecommunication services comprise the cost of the communication lines to connect the Company's customers and offices to each other and to the various exchanges, ECN's and datafeed suppliers. Datafeed service costs are comprised of the cost of receiving datafeeds from the various exchanges and other providers to redistribute to the Company's customers. It also includes the cost of communication lines to provide the Outsourced Network Services to customers including IT infrastructure management, technical support, managed email and file hosting, disaster recovery planning and network sales.

Telecommunication and datafeed services in the Trading Technologies segment decreased by 26% to \$751,000 for the third quarter ended September 30, 2011 from \$1.0 million for the same year-ago quarter. The reduction resulted from a rationalization of network related costs.

Telecommunication and datafeed services in the Outsourced Network Services segment relate to the Frontline acquisition.

### **Administrative and Other Expenses**

Administrative and other expenses consist of the Company's occupancy costs, professional fees for legal and audit services, insurance costs, other office and general expenses, depreciation of property and equipment and amortization of intangible assets.

Administrative and other expenses in the Trading Technologies segment increased by 53% to \$1.4 million for the third quarter ended September 30, 2011 from \$923,000 for the same year-ago quarter. During the quarter, the company incurred a lease cancellation fee of \$341,000 and acquisition-related expenses of \$41,000 resulting from the acquisition of Frontline Technologies Corporation.

### **Foreign Exchange Loss**

The Company incurred a foreign exchange loss of \$51,000 in the third quarter of 2011 compared to a loss of \$58,000 in the same year-ago quarter. The foreign exchange loss arises from translating U.S. denominated assets and reflects the strengthening of the Canadian dollar against the U.S. dollar during the period.

### **Loss from Continuing Operations**

The loss from continuing operations for the third quarter ended September 30, 2011 was \$2.4 million as compared to a net loss of \$1.7 million for the same year-ago quarter. Continuing operations basic and diluted loss per share for the quarter ended September 30, 2011 was \$0.10 compared to a loss per share of \$0.11 from the same year-ago quarter. As a result of the Frontline acquisition, 7,881,826 Class A Restricted Shares of the Company were issued during the second quarter which increased the average number of shares outstanding in the third quarter of 2011 from the average number outstanding during the third quarter of 2010.

## Discontinued Operations

Results of discontinued operations include the results of EBS and RCS. The gain from discontinued operations for the three months ended September 30, 2011 was \$1.9 million includes the gain on the referral of the clients of RCS of \$1.8 million. The loss for the three months ended September 30, 2010 was \$97,000. Discontinued operations basic and diluted earnings per share for the quarter ended September 30, 2011 was \$0.08 per share compared to a loss per share of (\$0.01) for the same year-ago quarter.

### For the nine months ended September 30, 2011

(\$000's)	Trading Technologies	2011 Outsourced Network Services	Total	Trading Technologies	2010 Outsourced Network Services	Total
<b>Statement of Income (Loss)</b>						
Revenues from external customers	\$ 3,541	\$ 1,538	\$ 5,079	\$ 4,058	-	\$ 4,058
<b>Expenses</b>						
Compensation and related benefits	2,988	1,025	4,013	2,896	-	2,896
Telecommunication and data feed services	2,632	667	3,299	3,122	-	3,122
Administrative and other	3,454	512	3,966	2,868	-	2,868
	9,074	2,204	11,278	8,886	-	8,886
<b>Loss before the undernoted:</b>	<b>(5,533)</b>	<b>(666)</b>	<b>(6,199)</b>	<b>(4,828)</b>	<b>-</b>	<b>(4,828)</b>
<b>Other income (loss)</b>						
Foreign exchange loss	(105)	(1)	(106)	(110)	-	(110)
Interest expense	(4)	(13)	(17)	(1)	-	(1)
Interest income	-	-	-	2	-	2
<b>Loss from continuing operations</b>	<b>\$ (5,642)</b>	<b>\$ (680)</b>	<b>\$ (6,322)</b>	<b>\$ (4,937)</b>	<b>-</b>	<b>\$ (4,937)</b>

## Revenue from Continuing Operations

Revenue from continuing operations for the nine months ended September 30, 2011 amounted to \$5.1 million, an increase of 25% from the \$4.1 million reported during the nine months ended September 30, 2010.

Revenue in the Trading Technologies segment from subscription licence fees decreased by 13% in the nine months ended September 30, 2011 to \$2.8 million from \$3.2 million in the first nine months of 2010. This decrease resulted from price adjustments and from the cancellation of terminals by customers either downsizing their trading desks or implementing alternative solutions reduced by the addition of licence fees from the Frontline acquisition. There was also a shift of certain fixed based revenues to variable based revenues as the Company transitions certain customers to a transaction based model. This segment also generates other revenue which includes revenue from information distribution, software development fees, installation fees and recovery of telecommunication charges. For the first nine months of 2011, this revenue decreased by 11% to \$732,000 from \$822,000 for the same period of 2010. The decrease related mainly to lower information distribution revenues and lower recovery of telecommunication charges.

As a result of the Frontline acquisition, the Company entered a new reportable segment, Outsourced Network Services. This contributed \$1.5 million revenue during the first nine months of 2011.

## **Expenses from Continuing Operations**

### **Compensation and Related Benefits**

Compensation and related benefits in the Trading Technologies segment increased by 3% to \$3.0 million for the nine months ended September 30, 2011 from \$2.9 million for the same period of 2010. The increase can be attributed to \$493,000 in severance expense incurred in the current quarter reduced by reduced salary levels. The expense for the nine months ended September 30, 2010 included a recovery of expense as a result of the reversal of an accrual for restructuring charges of \$221,000 made at the end of December 31, 2009 that was no longer required.

The compensation and related benefits in the Outsourced Network Services segment are as a result of the Frontline acquisition.

### **Telecommunication and Datafeed Services**

Telecommunication and datafeed services in the Trading Technologies segment decreased by 16% to \$2.6 million for the nine months ended September 30, 2011 from \$3.1 million for the same year-ago period. The reduction resulted from a rationalization of network related costs.

Telecommunication and datafeed services in the Outsourced Network Services segment relate to the Frontline acquisition.

### **Administrative and Other Expenses**

Administrative and other expenses in the Trading Technologies segment increased by 20% to \$3.5 million for the nine months ended September 30, 2011 from \$2.9 for the same year-ago quarter. During the nine months ended September 30, 2011, the company incurred a lease cancellation fee of \$341,000, incurred restructuring and acquisition-related expenses of \$301,000 resulting from the acquisition of Frontline Technologies Corporation.

### **Foreign Exchange Loss**

The Company incurred a foreign exchange loss of \$106,000 in the nine months of 2011 compared to a loss of \$110,000 in the same year-ago period. The foreign exchange loss arises from translating U.S. denominated assets and reflects the strengthening of the Canadian dollar against the U.S. dollar during the period.

### **Loss from Continuing Operations**

The loss from continuing operations for the nine months ended September 30, 2011 was \$6.3 million as compared to a net loss of \$4.9 million for the same period of 2010. Continuing operations basic and diluted loss per share for the nine months ended September 30, 2011 of \$0.32. Continuing operations basic and diluted loss per share for the nine months ended September 30, 2010 was \$0.34. As a result of the Frontline acquisition, 7,881,826 Class A Restricted Shares of the Company were issued in April 2011 which increased the average number of shares outstanding in the nine month period of 2011 from the average number outstanding during nine month period of 2010.

### **Discontinued Operations**

Results of discontinued operations include the results of EBS and RCS. The gain from discontinued operations for the nine months ended September 30, 2011 was \$1.5 million as compared to a net loss of

\$289,000 for the same year-ago period. The results for the nine months ended September 30, 2011 included the \$1.8 million gain on the referral of the clients of RCS. Discontinued operations basic and diluted earnings per share for the nine months ended September 30, 2011 was \$0.07 per share compared to a loss per share of (\$0.02) for the same year-ago period.

## Summary of Quarterly Results

The table below sets forth selected financial data for the most recent eight quarters ending September 30, 2011. The financial data is derived from the Company's unaudited condensed interim financial statements as follows:

### Frontline Technologies Inc. Summary of Quarterly Results

(Unaudited) (\$'000's except per share amounts)	2011 IFRS			2010 IFRS				2009 Canadian GAAP
	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(b)
<b>Revenue</b>	1,923	1,904	1,252	1,313	1,259	1,383	1,416	1,561
<b>Operating Expenses</b>								
Compensation and related benefits	1,429	1,662	922	949	931	781	1,184	1,334
Telecommunication and datafeed services	1,091	1,257	951	964	1,010	1,007	1,105	1,180
Administrative and other expenses	1,729	1,053	1,184	919	923	943	1,002	1,398
	4,249	3,972	3,057	2,832	2,864	2,731	3,291	3,912
<b>Loss before the undernoted</b>	(2,326)	(2,068)	(1,805)	(1,519)	(1,605)	(1,348)	(1,875)	(2,351)
Restructuring charges	-	-	-	-	-	-	-	776
Government assistance	-	-	-	-	-	-	-	1,390
Impairment of goodwill and intangible assets	-	-	-	-	-	-	-	765
Foreign exchange loss (gain)	51	23	32	114	58	(156)	208	(85)
Interest expense	12	4	1	3	-	-	1	3
Interest income	-	-	-	-	-	-	(2)	(4)
	63	27	33	117	58	(156)	207	2,845
<b>Loss before income taxes</b>	\$(2,389)	\$(2,095)	\$(1,838)	\$(1,636)	\$(1,663)	\$(1,192)	\$(2,082)	\$(5,196)
Provision for income taxes								
Current	-	-	-	-	-	-	-	149
Deferred	-	-	-	-	-	-	-	4,304
	-	-	-	-	-	-	-	4,453
<b>Loss from continuing operations</b>	\$(2,389)	\$(2,095)	\$(1,838)	\$(1,636)	\$(1,663)	\$(1,192)	\$(2,082)	\$(9,649)
<b>Income (loss) from discontinued operations</b>	\$ 1,900	\$ (207)	\$ (202)	\$ (175)	\$ (97)	\$ (2)	\$ (190)	\$ (1,252)
<b>Loss for the period</b>	\$(489)	\$(2,302)	\$(2,040)	\$(1,811)	\$(1,760)	\$(1,194)	\$(2,272)	\$(10,901)
Loss per share: Basic & diluted	\$(0.02)	\$(0.11)	\$(0.14)	\$(0.12)	\$(0.12)	\$(0.08)	\$(0.15)	\$(0.74)

Notes:

(a) Prepared under IFRS; (b) Prepared under Canadian GAAP.

Quarterly results are impacted by the amount of subscription based revenue generated. Subscription based revenue has trended lower over the trailing eight (8) quarters as a result of customer cancellations either as a result of cost cutting measures or the implementation of alternative solutions.

During the fourth quarter of 2009, the Company conducted goodwill and intangibles asset impairment tests. As the impairment tests indicated that the carrying value of the goodwill and intangibles exceeded their fair value, and due to continued difficult market conditions, we recorded an impairment charge. The Company also recorded a write-down of our Canadian federal investment tax and provincial corporate minimum tax credits. Given the uncertainty of the timing of a return to profitability, it was not more likely than not that the Company would realize the benefit of the tax credits carried forward. Additionally, a future tax expense was recorded for the year related to valuation allowances against tax assets.

## Transactions with Related Parties

During the third quarter of 2011, the Company's subsidiary, EBS, paid trading permit expenses at market rates of \$nil (quarter ended September 30, 2010 - \$18,000) and paid for execution services in the amount

of \$nil (quarter ended September 30, 2010 - \$40,000) to a company controlled by the former president of EBS.

During the nine months ended September 30, 2011, the Company's subsidiary, EBS, paid trading permit expenses at market rates of \$nil (period ended September 30, 2010 - \$52,000) and paid for execution services in the amount of \$nil (period ended September 30, 2010 - \$120,000) to a company controlled by the former president of EBS. In addition, EBS recorded transaction fee revenues of approximately \$22,000 (period ended September 30, 2010 - \$17,000) from the same company for the nine months ended September 30, 2011.

### **Liquidity and Capital Resources**

The Company has incurred significant operating losses and negative cash flows from operations in recent years including the third quarter and nine months of 2011. The Company has available cash of \$5.2 million as at September 30, 2011. Cash outflow from operating activities was \$802,000 during the quarter ended September 30, 2011 compared to a cash outflow of \$1.9 million for the same quarter of 2010. Revenue from continuing operations funded approximately 45% of operating costs in the third quarter ending September 30, 2011 which compares to the third quarter of 2010 where revenue from continuing operations funded 44% of operating costs. Cash outflow from operating activities for the nine months ended September 30, 2011 was \$4.2 million compared to \$5.0 million cash outflow in the same quarter of 2010. Revenue from continuing operations funded approximately 45% of operating costs in the nine month period ending September 30, 2011 and in the same year-ago period revenue funded 46% of operating costs.

The continuation of the Company as a going concern is dependent on Management's ability to improve operating results. During the quarter, the Company received US\$1.8 million in compensation for the referral of the clients of RCS. In addition, an agreement has been reached with ConvergEx whereby the clients of EBS will not be referred. The Board of Directors and management of the Company are assessing the Company's options, including with respect to EBS and its business, and the related effect on its ability to pay a special distribution to the holders of its common shares.

On April 13, 2011, the Company completed the acquisition of Frontline Technologies Corporation and expects to realize the benefit of synergies related to network infrastructure in the fourth quarter of 2011.

### **Financial Position**

At September 30, 2011, the Company had cash and cash equivalents of \$5.2 million and working capital of \$4.8 million compared to cash and cash equivalents of \$8.3 million and working capital of \$10.3 million at December 31, 2010. The total net cash inflow for the third quarter ended September 30, 2011 was \$1.3 million as compared to a net cash outflow of \$1.7 million in the same year-ago quarter. The cash inflow was due to the receipt of \$1.8 million received for the referral of the RCS clients to ConvergEx during the quarter. The total net cash outflow for the nine months ended September 30, 2011 was \$3.1 million which compares favourably to the total net cash outflow for the nine months ended September 30, 2010 of \$6.9 million.

### **Operating Activities**

The Company utilized cash flow from continuing operations of approximately \$802,000 for the quarter ended September 30, 2011, as compared to utilizing \$1.9 million of cash from continuing operations for the quarter ended September 30, 2010. The year-over-year decrease in cash flow utilized by continuing operations is mainly attributable to the reduction of investment in working capital in the 2011 third quarter compared to the same quarter of 2010.

The Company utilized cash flow from continuing operations of approximately \$4.2 million for the nine months ended September 30, 2011, as compared to utilizing \$5.0 million of cash from continuing operations for the nine months ended September 30, 2010. The year-over-year decrease in cash flow utilized by continuing operations is mainly attributable to a reduction in working capital investment.

### **Financing Activities**

The Company generated \$41,000 of cash in the quarter ended September 30, 2011 as compared to utilizing no cash in the quarter ended September 30, 2010. The cash generated was due to the increase in bank indebtedness diminished by repayment of long-term debt and obligations under finance leases.

The Company generated cash flow from continuing operations of approximately \$3.0 million for the nine months ended September 30, 2011, as compared to utilizing \$67,000 during the comparable nine-month period ended September 30, 2010. During the nine months ended September 30, 2011, the Company completed the Frontline acquisition described above. The purchase was financed by paying \$1.0 million of cash and by issuing 7,881,826 Class A Restricted shares. The shares were valued at \$0.37 per share being the closing price on the closing date of the transaction, April 13, 2011 resulting in a valuation of \$2.9 million. This was the principal source of the \$2.9 cash flow generated by continuing operations during the nine months ended September 30, 2011. Financing activities in the nine months ended September 30, 2010 is attributable to the repurchase of common shares under a Normal Course Issuer Bid ("NCIB").

### **Investing Activities**

The Company did not utilize any cash for continuing operations in the quarter ended September 30, 2011 as compared to utilizing \$51,000 of cash in the same quarter of 2010. The Company utilized \$4.2 million of cash for continuing operations in the nine months ended September 30, 2011 as compared to utilizing \$422,000 of cash in the nine-month period of 2010. This cash outflow in the nine months of 2011 is attributable to the acquisition of Frontline Technologies Corporation during the second quarter. The cash outflow for the comparable quarter and nine month period of 2010 was used for the purchase of equipment.

### **Liquidity and Sources of Financing**

The Company's subsidiary, EBS, which continues to be classified as a discontinued operation, has a secured credit facility of US\$10.0 million that may only be utilized to facilitate clearing and settlement activities. The facility, when utilized, is collateralized by marketable securities ("the pledged securities") that are held at the Depository and Trust Company ("DTC") as a result of a clearing break. There were no amounts outstanding under this facility at September 30, 2011.

EBS is required by the Securities Exchange Commission ("SEC") and the Options Clearing Corporation ("OCC") to maintain specific levels of net capital (refer to financial position above) defined as assets minus liabilities less deductions for certain types of assets. Any changes in such net capital rules or the maintenance of the existing levels of net capital or any additional fund deposits required by the OCC as a result of the growth in the Company's options business may restrict the Company's ability to withdraw capital from its brokerage subsidiary to fund its working capital requirements.

The Company is dependent upon EBS to fund a certain portion of its working capital requirements and to fund a certain amount of its capital asset expenditures.

During the second quarter ended June 30, 2011, the Company's subsidiary, Frontline Technologies Corporation, established a credit facility with a Canadian chartered bank. The credit facility consists of a business line of credit and is secured by a guarantee from two shareholders of the Company. The facility

is payable on demand and bears interest at bank prime plus 1%. The outstanding balance of the facility at September 30, 2011 was \$513,000 (December 31, 2010 - \$nil).

The Company may be required to raise additional capital in the next twelve (12) months to fund its operations if its ability to withdraw capital from its brokerage subsidiaries becomes restricted due to continuing losses.

### **Commitments and Contractual Obligations**

These items are substantially unchanged from those disclosed in Company's annual MD&A for the year ended December 31, 2010.

### **Off-Balance Sheet Arrangements**

The Company does not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space and certain nominal equipment. In accordance with IFRS, where the risks and rewards of ownership are retained by the lessor, they are not included on the Condensed Consolidated Statement of Financial Position.

The Company typically agrees in its sales contracts to indemnify its customers for any expenses or liability resulting from claimed infringements of patents, trademarks or copyrights of third parties. The term of these indemnification agreements are generally perpetual any time after execution of the agreement. The maximum amount of potential future indemnification is generally limited as specified on a contract-by-contract basis. To date, the Company has not paid any amounts to settle claims or defend lawsuits.

### **Future Accounting Changes**

The International Accounting Standards Board ("IASB") has amended IAS 1 "Presentation of Financial Statements". The amendment changes the disclosure of items presented in other comprehensive income. IAS 1 will require separate presentation of items in other comprehensive income in two groups based on whether or not those items may be recycled to profit or loss in the future. This amendment is effective for years beginning on or after July 1, 2012.

IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting.

The IASB issued IFRS 10 "Consolidated Financial Statements", which replaces the current guidance in IAS 27 "Consolidated and Separate Financial Statements", and SIC 12 "Consolidation – Special Purpose Entities". IFRS 10 changes the definition of control in IFRS so that the same criteria are applied to all entities to determine control. IFRS 10 is effective for years beginning on or after January 1, 2013.

The IASB issued IFRS 13 "Fair Value Measurement", which provides one source of guidance on measuring fair value. The standard also enhances the disclosure requirements about fair value measurements. IFRS 13 is effective for years beginning on or after January 1, 2013.

The Company has not yet determined the impact the above noted IAS and IFRS will have on its consolidated financial statements.

### **International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will be used for interim and annual financial statements of publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on an IFRS basis in the current interim financial statements. Comparative information for periods from January 1, 2010 onwards has been restated in accordance with IFRS.

### **Key IFRS dates**

January 1, 2010 (transition date): An opening consolidated balance sheet as of January 1, 2010 according to IFRS has been prepared to facilitate the changeover to IFRS reporting in 2011. Previously, the Company reported its fiscal 2010 and comparative 2009 results according to Canadian GAAP.

January 1, 2011 (changeover date): The date after which the Company will prepare and report interim and annual 2011 financial statements with 2010 comparatives according to IFRS.

### **IFRS Conversion**

The Company's IFRS conversion plan addressed matters including changes in accounting policies, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the version was understood and managed reasonably, the Company had consultations with its auditors.

The Company has also reviewed its accounting system and current internal and disclosure control processes and concluded they will not need significant modification as a result of our conversion to IFRS.

### **Impact of IFRS**

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not change the actual cash flows of the Company, the adoption results in changes to the reported financial position and results of operations of the Company. In order to allow the users of financial statements to better understand these changes, we have provided the reconciliation between Canadian GAAP and IFRS for these financial statements in Note 13 to the condensed interim consolidated financial statements. The adoption of IFRS has had no significant impact on the net cash flows of the Company.

In preparing the reconciliations, the Company applied the principles and elections of IFRS 1, with a transition date of January 1, 2010.

There can be no guarantee that the International Accounting Standards Board will not make further pronouncements, and that the Canadian Accounting Standards Board will also not adopt further pronouncements, before the consolidated financial statements as at December 31, 2011, are prepared. Consequently, there can be no guarantee that the standards used to prepare the condensed interim financial statements for the period ended September 30, 2011 will not differ from those used to prepare the consolidated financial statements for the year ended December 31, 2011.

## Initial Adoption of International Accounting Standards

IFRS 1 "First Time Adoption of International Accounting Standards" sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional date of the statement of financial position with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company has taken the following exemptions:

(i) Business combinations:

IFRS 1 provides the option to apply IFRS 3, Business Combinations ("IFRS 3"), retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company has elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to the transition date and such business combinations are not restated. As a result of applying this exemption, except as required under IFRS 1, any goodwill arising on such business combinations before the transition date has not been adjusted from the carrying value previously determined under previous GAAP.

(ii) Fair value as deemed cost:

IFRS 1 permits measuring, at the date of transition, an item of property and equipment or intangible assets that meet the criteria specified in IAS 38, Intangible Assets, at either its fair value at the transition date and using those amounts as deemed cost, or using the historical valuation under previous Canadian GAAP. The Company applied the historical cost model to property and equipment and intangible assets and did not restate to fair value under IFRS. The Company used the historical basis under previous Canadian GAAP as the deemed cost under IFRS at transition date.

(iii) Cumulative Translation Account ("CTA"):

IFRS 1 provides the option to elect translation gains or losses in accumulated other comprehensive loss to be reclassified to retained earnings. The Company has reset the current CTA balance to zero as at January 1, 2010.

(iv) Stock-based compensation transactions:

IFRS 1 does not require first-time adopters to apply the requirements of IFRS 2, Share-Based Payment ("IFRS 2"), to equity instruments that were granted on or prior to November 7, 2002 or to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Company has elected not to apply IFRS 2 to stock options issued on or prior to November 7, 2002 nor to liabilities arising from share-based payment transactions that were settled prior to the date of transition to IFRS.

The most significant impacts of IFRS upon conversion were within the areas of share-based payments, and foreign currency translation.

The quantitative effects and adjustments required to Company's equity and statement of financial position as a result of the transition to IFRS are included in note 13 of the condensed interim consolidated financial statements.

## Changes in Accounting Policies and Presentation

Included in Note 2 to the unaudited condensed interim consolidated financial statements are disclosures related to the basis of preparation of the unaudited condensed interim consolidated financial statements as prepared under IFRS.

Under IFRS, the concept of an integrated or self-sustaining foreign operation does not exist as it does under Canadian GAAP. Under Canadian GAAP, the Company's United States operations are considered to be integrated foreign operations resulting in historical foreign exchange rates used to translate non-monetary assets and liabilities. Under IFRS, it was determined that the U.S. dollar is the functional currency of the Company's U.S. operations and as such, the assets and liabilities are translated using period-end exchange rates and any exchange gains or losses are included in other comprehensive loss.

## Comparative Information

The Company has restated all prior period figures in accordance with IFRS, except as noted.

## Risks and Uncertainties

The primary risks affecting the Company are substantially unchanged from those discussed in the Company's annual MD&A for the year ended December 31, 2010.

## Customer Dependence

The Company is dependent on a limited number of customers for a substantial amount of its revenue for its continuing operations. The loss of a significant customer would have a material adverse effect on revenue and results of operations. For the three months ended September 30, 2011, three customers accounted for approximately 21% of revenue (three months ended September 30, 2010, three customers for approximately 41%). For the nine months ended September 30, 2011, three customers accounted for approximately 29% of revenue (nine months ended September 30, 2010, three customers for approximately 39%). The dependence on a limited number of customers for a substantial amount of our revenue could lead to fluctuations in our operating results.

## Outstanding Share Data

Set out below is the outstanding share data for the Company as at November 10, 2011.

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Common Shares	14,637,863
Class A Restricted Shares <sup>(a)</sup>	7,881,926
<b>Options to Purchase Common Shares:</b>	
Issued and Outstanding	1,383,000

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## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chairman and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at September 30, 2011, Frontline's management, with the participation of the CEO and the CFO, evaluated the effectiveness of Frontline's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and concluded that such controls and procedures were effective.

## **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for internal purposes in accordance with IFRS.

There were no changes over the Company's internal controls over financial reporting during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Additional Information**

Additional information, including the quarterly and annual consolidated financial statements, annual information form, management proxy circular and other disclosure documents may be examined by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com).