

## Contact Info:

Ph: (250) 377-1182  
Fax: (250) 377-1183  
info@qiscapital.com  
www.qiscapital.com

Doren Quinton,  
President

Josh Kier,  
Vice President

# QIS COMPANY PROFILE

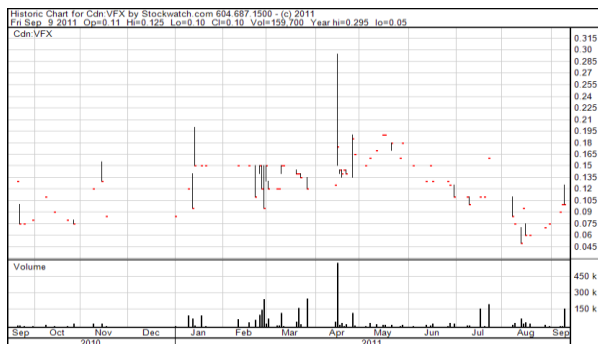


Virtutone Networks Inc.  
(VFX:TSX-V)

Date: September 9, 2011

Price: \$0.10

(coverage initiated on Sep. 9, 2011 at \$0.10)



### KEY INFORMATION

|                                      |                  |
|--------------------------------------|------------------|
| Fiscal Year-end                      | January 31       |
| 52-Week High/Low                     | \$0.295 - \$0.05 |
| 3-Month Avg. Daily Trading Volume    | 13,700 shares    |
| Market Capitalization                | \$1.7 million    |
| Enterprise Value                     | \$2.0 million    |
| Book Value per Share (pre-financing) | \$0.015          |
| Working Capital per share (Apr. 30)  | \$0.00           |
| Current Ratio                        | 0.9              |
| Gross Margin (qtr ended Apr. 30)     | 48%              |
| LT Debt to Equity                    | 0.00             |
| Price to f2010 Earnings              | nm               |
| Price to f2011 Earnings              | nm               |

### FINANCIAL HISTORY (000s of Canadian Dollars)

|              | f2008  | f2009   | f2010   | f2011    |
|--------------|--------|---------|---------|----------|
| Revenues     | \$ 146 | \$ 453  | \$ 851  | \$ 2,883 |
| Gross Profit | 82     | 222     | 485     | 1,155    |
| Net Income   | 46     | (723)   | (237)   | (148)    |
| per share    | 0.005  | (0.053) | (0.014) | (0.009)  |

### FINANCIAL DATA (000s of Canadian Dollars)

|               | 3 Months Apr. 30 |         | Yr Ended Jan. 31 |         |
|---------------|------------------|---------|------------------|---------|
|               | 2011             | 2010    | 2011             | 2010    |
| Revenues      | \$ 667           | \$ 373  | \$ 2,883         | \$ 851  |
| Cost of Sales | 349              | 159     | 1,728            | 366     |
| Gross Profit  | 318              | 214     | 1,155            | 485     |
| Net Income    | 78               | (111)   | (148)            | (237)   |
| per share     | 0.006            | (0.007) | (0.009)          | (0.014) |

### BALANCE SHEET (as at April 30, 2011)

|                      |            |
|----------------------|------------|
| Current Assets       | \$ 478,430 |
| Total Assets         | 721,639    |
| Current Liabilities  | 516,732    |
| Long-Term Debt       | nil        |
| Shareholders' Equity | 204,907    |

### SHARES OUTSTANDING (as at September 1, 2011)

|                                     |            |
|-------------------------------------|------------|
| Basic (57% held by mgmt & insiders) | 17,488,755 |
| Fully-Diluted                       | 18,692,088 |

## Highlights:

- recurring revenue business model
- profitable in each of the past three quarters with strong gross margins
- no long-term debt
- potential for significant future contracts similar to the agreement with The Cash Store Financial Services Inc.

Virtutone Networks Inc. is a supplier of Voice Over Internet Protocol (VoIP) and Fax Over Internet Protocol (FoIP) applications. The company's offerings include IP voice lines, IP fax lines, analog voice lines, analog fax lines, hosted private branch exchange (PBX), on-site PBX, call center applications, calling features and many more communications options to meet customer demands. Virtutone's products significantly reduce the communications costs for its clients and the technology works over terrestrial, wireless, and satellite connections.

The company was incorporated in January 2007 as SatFax Networks Inc. In June 2008, SatFax completed a reverse takeover of Sawhill Capital Ltd, a capital pool company trading on the TSX-V. Pursuant to this transaction in September 2008, the company acquired VoIP lines and related assets from Terrace Communications Inc. and changed its name to Virtutone Networks Inc.

Virtutone generates revenue from three main sources. First, revenue arises from the initial sale of the Fax Terminal Adaptors (FTAs) for fax lines and Analog Terminal Adapters (ATAs) or IP phones for voice lines. The company's second and primary source of revenue is from the recurring line use charges generated by the phone and fax lines provided. The company also derives revenue from the installation and service of its products.

Virtutone's founders have worked cooperatively for several years offering VoIP services to oil and gas exploration companies, forestry and

fire fighting departments and other businesses across North America. Clients at remote work sites, support camps and bases require a 100% reliable faxing solution, so management seized the opportunity to develop a solution to meet this demand.

Virtutone's initial target market focusing on companies in remote locations continues to grow, especially in the oil and gas producing states of the southern U.S., including the Gulf of Mexico. A second market that Virtutone has expanded into is the provision of fax services to other VoIP providers not currently able to offer their clients a reliable faxing solution. By reselling Virtutone's fax service, these companies can now offer a complete IP solution to their customers. Virtutone has also focused its sales efforts on companies with multiple locations such as retail outlets and chain stores that require communications between the branches and head office.

In March 2010, the company secured a significant contract with The Cash Store Financial Services Inc. (CSF:TSX) to provide a private network to interconnect the Cash Store's head office with its 500+ retail branch locations. Virtutone provided a fully managed, private network supporting VoIP and FoIP lines to the Cash Store's head office, as well as its current and future branch locations in three countries. There is a minimum commitment to Virtutone over the term of the contract for the voice and fax-line services of \$178 per month per store to over 500 existing locations in Canada, Australia, and the United Kingdom. Furthermore, Cash Store has agreed to install Virtutone VoIP and FoIP lines in all new branches over the next three years. Based on current growth projections, this is expected to add about 400 branch locations to the contract, bringing the total number to about 900 branches worldwide. The private network will eliminate all inter-company long distance charges and allows four-digit dialing between branches and head office.

As of January 2011, Virtutone had approximately 9,000 active lines. In December 2010, the company began to upgrade its infrastructure systems, including the purchase of new hardware and software, as well as the allocation of significant internal resources. This restructuring is expected to be completed in the second quarter of fiscal 2012, and will improve the quality of the company's service and the quantity of

lines that can be supported. Once the upgrade is completed, Virtutone expects to significantly ramp up its sales efforts. Management intends to focus on controlling costs and revenue generation, both of which should contribute to continued profitable results.

Virtutone currently has a network of over 90 dealers and distributors in satellite, cellular and VoIP markets reselling its products and services across North America. Management expects this network to continue to grow and generate increased sales.

Virtutone has now been profitable in 3 consecutive quarters. Initial costs were incurred to implement the Cash Store contract in early-mid 2010, but the company became profitable in the second half of the year ended January 31, 2011. This profitability is expected to be sustainable into the foreseeable future due to the company's recurring revenue model. Management believes that the success of the Cash Store contract may potentially lead to a number of new and similar opportunities.

Virtutone's sales levels have begun to stabilize with recurring revenue streams making up a higher percentage than the sporadic sales/contracts. Management intends to focus on revenue generation and cost controls in order to maintain profitability. Annualizing the company's trailing 3 quarters of results fueled by a recurring revenue stream would result in sales of over \$3.5 million with corresponding net income of \$289,000 or \$0.017 per share. With no debt, Virtutone is presently trading at less than 6 times annualized earnings. In addition, the company's market capitalization is presently under \$2 million, well below 1X annual revenues. While management has indicated that the company is getting close to several new significant agreements, these annualized numbers do not account for any future growth.

### **Virtutone Networks Inc.**

Suite 305, 9425 94<sup>th</sup> Avenue

Fort Saskatchewan, AB T8L 1N6

Contact: Jason Allen, President & CEO

Phone: (780) 702-5777 or (780) 235-4100

Fax: (780) 702-5775

Email: [jallen@virtutone.com](mailto:jallen@virtutone.com)

Website: [www.virtutone.com](http://www.virtutone.com)

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