



**NORTHcore**  
TECHNOLOGIES

**Third Quarter 2009 Report**

**November 10, 2009**

# PROFILE

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Northcore Technologies Inc. (“Northcore” or the “Company”) provides a Working Capital Engine™ that helps organizations source, manage, appraise and sell their capital equipment. Our integrated software solutions and support services are designed for organizations in the financial services, manufacturing, oil and gas, and government sectors to:

- Streamline the sourcing and procurement of critical assets, while reducing purchasing costs;
- Track the location of assets to support improved asset utilization and redeployment of idle equipment;
- Manage the appraisal of used equipment more effectively, resulting in a better understanding of fair market values; and
- Accelerate the sale of surplus assets while generating higher yields.

Northcore owns 50 percent of GE Asset Manager, LLC (also referred to as “GE Asset Manager”), a joint business venture with GE Capital Corporation, through its business division GE Commercial Finance, Capital Solutions (“GE Commercial Finance”). Together, the companies work with leading organizations around the world to help them liberate more capital value from their assets.

Northcore also owns a 40 percent interest in Southcore Technologies Ltd., a strategic partnership with the Pan Pacific Group International Ltd. (“Pan Pacific”). Through this collaboration, Pan Pacific markets Northcore’s proven suite of online products to its broad international business network and connects certain assets of Pan Pacific, on an exclusive basis, with enabling technologies from Northcore.

Northcore’s shares trade on both the Toronto Stock Exchange (TSX: NTI) and the OTC Bulletin Board (OTCBB: NTLNF).

Additional information about Northcore can be obtained at [www.northcore.com](http://www.northcore.com).

# LETTER TO OUR SHAREHOLDERS

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## **Dear Shareholders,**

In the third quarter of 2009, Northcore continued to strengthen both its balance sheet and its sales channels. During this period, the Company raised \$495,000 of incremental funding through an equity private placement and retired an additional \$596,000 of debt through conversions of debentures into equity. A ‘liberate your working capital’ sales campaign was initiated in North America and Northcore’s Working Capital Engine™ product suite was introduced into the Caribbean market through the Southcore Technologies joint venture. In addition, new business was contracted through GE Asset Manager, Northcore’s long standing joint venture with GE Commercial Finance.

Efforts year-to-date have been directed towards building the foundation for growth. The Company’s total liabilities have been reduced by 46 percent since the start of the year. This percentage was further improved to 57 percent based on a series of debt to equity conversions subsequent to the quarter. Moreover, two promising new sales channels have been established in addition to the strategic partnership with GE. Northcore is now clearly focused on achieving new business objectives. Management looks forward to improving the growth of revenues, maintaining a stable cost base and delivering sustainable value for all stakeholders.

## **Third Quarter Financial Results**

In the third quarter of 2009, Northcore reported consolidated revenues of \$213,000, representing a slight increase from the \$208,000 realized in the second quarter of 2009 and the \$200,000 of revenues in the third quarter of 2008.

Northcore reported a loss for the third quarter of \$610,000 or \$nil per share, basic and diluted. This compares to a loss of \$433,000 or \$nil per share, basic and diluted in the second quarter. Adjusting the second quarter for a non-recurring reduction in settlement of past debts with a creditor for \$240,000, there was a nine percent sequential improvement from operations in the third quarter. In the third quarter of 2008, Northcore reported a loss of \$536,000 or \$0.01 per share, basic and diluted.

As at September 30, 2009, Northcore held cash and cash equivalents of \$661,000 and accounts receivables of approximately \$247,000.

## **Operating Highlights**

Northcore completed the following customer and operating activities in the period:

- Implemented a new media marketing platform supporting high value assets for a major strategic partner that enables high resolution close-up viewing of asset detail. This brings a new level of image quality to the industry, heretofore only provided by world leading art galleries and museums;
- Worked with a key strategic partner to ensure the GE Asset Manager suite of products meet compliance and regulatory requirements through their certification process;
- Began a “Liberate Your Working Capital” sales campaign in the U.S. and Canada;
- Introduced the Working Capital Engine™ product and services offering by Southcore Technologies Ltd. through participation in the government sponsored eTeck ICT Symposium in Trinidad;
- Closed an equity private placement, securing net proceeds of \$495,000 through the issuance of common shares; and
- Completed a series of debt to equity conversions by investors totaling \$596,000.

# LETTER TO OUR SHAREHOLDERS

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Highlights subsequent to the quarter ended September 30, 2009:

- A Memorandum of Understanding with Home Hardware Stores Limited to provide an intranet for Home Hardware Dealers across Canada to more efficiently deploy merchandising assets; and
- An additional \$477,000 of debt to equity conversions by investors, resulting in the equity conversion of all remaining Series K Debentures and the elimination of corresponding debt obligations.

## **Outlook**

We have customers that can evidence clear savings from their investment in Northcore's Working Capital Engine™. A substantial return on investment is a cornerstone of our value proposition to prospective customers and we are encouraged by their receptivity. While current economic conditions continue to challenge many, at Northcore we see opportunity. We now look forward to producing tangible financial results for our shareholders through expanded deployment of our cost saving technology solutions.

Yours truly,



Duncan Copeland, CEO  
November 2009

# CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

|   | September 30,<br>2009 | December 31,<br>2008 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| CURRENT   |                       |                      |
| Cash  | \$ 661                | \$ 460               |
| Accounts receivable                                       | 247                   | 305                  |
| Deposits and prepaid expenses                             | 46                    | 28                   |
|   | 954                   | 793                  |
| INVESTMENT IN SOUTHCORE (Note 4)                          | 544                   | -                    |
| CAPITAL ASSETS  | 21                    | 19                   |
|   | \$ 1,519              | \$ 812               |
| <b>LIABILITIES</b>  |                       |                      |
| CURRENT   |                       |                      |
| Accounts payable  | \$ 292                | \$ 570               |
| Accrued liabilities                                       | 251                   | 378                  |
| Deferred revenue  | 100                   | 30                   |
| Notes payable (Note 5)                                    | 155                   | 382                  |
| Current portion of secured subordinated notes (Note 6)    | 506                   | 1,125                |
|   | 1,304                 | 2,485                |
| SECURED SUBORDINATED NOTES (Note 6)                       | 443                   | 730                  |
|   | 1,747                 | 3,215                |
| <b>SHAREHOLDERS' DEFICIENCY</b>                           |                       |                      |
| Share capital (Note 7)                                    | 109,094               | 104,676              |
| Contributed surplus (Note 8)                              | 3,071                 | 2,161                |
| Warrants (Note 9)   | 361                   | 510                  |
| Stock options (Note 10)                                   | 1,360                 | 1,389                |
| Other options   | 193                   | 193                  |
| Conversion feature on secured subordinated notes (Note 6) | 1,107                 | 2,280                |
| Deficit   | (115,414)             | (113,612)            |
|   | (228)                 | (2,403)              |
|   | \$ 1,519              | \$ 812               |

Going concern (Note 2)  
Subsequent event (Note 16)

*See accompanying notes to unaudited interim consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

*(In thousands of Canadian dollars, except per share amounts) (Unaudited)*

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2009                                | 2008      | 2009                               | 2008       |
| Revenues (Note 11)   | \$ 213                              | \$ 200    | \$ 580                             | \$ 564     |
| Operating expenses:  |                                     |           |                                    |            |
| General and administrative (Note 12)                                     | 328                                 | 339       | 927                                | 1,180      |
| Customer service and technology  | 191                                 | 165       | 545                                | 518        |
| Sales and marketing  | 55                                  | 18        | 125                                | 101        |
| Employee stock options   | 5                                   | 9         | 92                                 | 28         |
| Depreciation   | 7                                   | 8         | 23                                 | 26         |
| Total operating expenses   | 586                                 | 539       | 1,712                              | 1,853      |
| Loss from operations before the under-noted                              | (373)                               | (339)     | (1,132)                            | (1,289)    |
| Interest expense:  |                                     |           |                                    |            |
| Cash interest expense  | 64                                  | 93        | 222                                | 241        |
| Accretion of secured subordinated notes                                  | 173                                 | 104       | 448                                | 273        |
|  | 237                                 | 197       | 670                                | 514        |
| LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD                               | \$ (610)                            | \$ (536)  | \$ (1,802)                         | \$ (1,803) |
| LOSS PER SHARE, BASIC AND DILUTED  | \$ (0.00)                           | \$ (0.01) | \$ (0.01)                          | \$ (0.02)  |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED (000's) | 145,883                             | 108,881   | 135,106                            | 108,678    |

## CONSOLIDATED STATEMENTS OF DEFICIT

*(In thousands of Canadian dollars) (Unaudited)*

|                              | Nine Months Ended     |                       |
|------------------------------|-----------------------|-----------------------|
|                              | September 30,<br>2009 | September 30,<br>2008 |
| DEFICIT, BEGINNING OF PERIOD | \$ (113,612)          | \$ (111,257)          |
| LOSS FOR THE PERIOD          | (1,802)               | (1,803)               |
| DEFICIT, END OF PERIOD       | \$ (115,414)          | \$ (113,060)          |

*See accompanying notes to unaudited interim consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

|   | Three Months Ended<br>September 30,<br>2009 |          | Nine Months Ended<br>September 30,<br>2008 |            |
|---|---|----------|--|------------|
| <b>NET INFLOW (OUTFLOW) OF CASH<br/>RELATED TO THE FOLLOWING ACTIVITIES</b> |   |          |  |            |
| <b>OPERATING</b>  |   |          |  |            |
| Loss for the period   | \$ (610)                                    | \$ (536) | \$ (1,802)                                 | \$ (1,803) |
| Items not affecting cash:   |   |          |  |            |
| Employee stock options  | 5   | 9        | 92   | 28         |
| Depreciation  | 7   | 8        | 23   | 26         |
| Accretion of secured subordinated notes                                     | 173   | 104      | 448  | 273        |
|   | (425)                                       | (415)    | (1,239)                                    | (1,476)    |
| Changes in non-cash operating working capital (Note 13)                     | (77)  | 14       | (125)                                      | 299        |
|   | (502)                                       | (401)    | (1,364)                                    | (1,177)    |
| <b>INVESTING</b>  |   |          |  |            |
| Capital assets  | (18)  | -        | (25)                                       | -          |
|   | (18)  | -        | (25)                                       | -          |
| <b>FINANCING</b>  |   |          |  |            |
| Repayment of notes payable (Note 5)   | (1)   | (139)    | (232)                                      | (274)      |
| Warrants exercised (Note 9 (b))   | -   | -        | 1,320                                      | -          |
| Options exercised (Note 10 (d))   | -   | -        | 7  | -          |
| Secured subordinated notes (Note 6)   | -   | 678      | -  | 1,203      |
| Issuance of common shares and warrants (Note 7 (d))                         | 495   | -        | 495  | -          |
|   | 494   | 539      | 1,590                                      | 929        |
| NET CASH INFLOW (OUTFLOW) DURING<br>THE PERIOD                              | (26)  | 138      | 201  | (248)      |
| CASH, BEGINNING OF PERIOD   | 687   | 92       | 460  | 478        |
| CASH, END OF PERIOD   | \$ 661                                      | \$ 230   | \$ 661                                     | \$ 230     |

## SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS

|               |       |       |        |        |
|---------------|-------|-------|--------|--------|
| Interest paid | \$ 30 | \$ 87 | \$ 117 | \$ 222 |
|---------------|-------|-------|--------|--------|

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES – See Note 13

*See accompanying notes to unaudited interim consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements.*

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The unaudited interim consolidated financial statements of Northcore Technologies Inc. ("Northcore" or the "Company") should be read in conjunction with the Company's most recent annual audited consolidated financial statements. The accompanying unaudited interim consolidated financial statements include all subsidiaries and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for the purposes of interim financial information. Accordingly, they do not include all information and notes as required by Canadian GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in the Company's audited consolidated financial statements prepared in accordance with Canadian GAAP for the three years ended December 31, 2008, except as described below.

**Adoption of New Accounting Policies**

**Goodwill and Intangible Assets**

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets. This new Handbook Section replaces CICA Handbook Section 3062, Goodwill and Other Intangible Assets, and CICA Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this new standard had no impact on the consolidated financial statements.

**Unadopted New Accounting Pronouncements**

**Financial Instruments – Disclosures**

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company is assessing the impact of these amendments on its consolidated financial statements.

**Business Combinations**

In October of 2008, the CICA issued Handbook Section 1582, Business Combinations, concurrently with Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling Interests. Section 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the

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Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company will consider the impact of the new standards on its consolidated financial statements if the Company has a business combination.

**International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five years transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period for 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

The Company has assembled an IFRS transition team and is committed to the development of its IFRS changeover plan during the coming year. The Company is evaluating accounting policy differences between Canadian GAAP and IFRS based on management's current understanding of these standards. However, the financial reporting impact of the transition to IFRS has not yet been determined.

**2. GOING CONCERN**

While the accompanying unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, certain adverse conditions and events cast substantial doubt upon the validity of this assumption. Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or cease trading or has no realistic alternative but to do so within the foreseeable future. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations. The Company's ability to continue as a going concern will be dependent on management's ability to successfully execute its business plan including a substantial increase in revenue as well as maintaining operating expenses at or near the same level as 2008. The Company cannot provide assurance that it will be able to execute on its business plan or assure that efforts to raise additional financings would be successful.

These unaudited interim consolidated financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not appropriate for these unaudited interim consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net losses and the balance sheet classifications used.

The continued existence beyond September 30, 2009 is dependent on the Company's ability to increase revenue from existing products and services, and to expand the scope of its product offering which entails a combination of internally developed software and business ventures with third parties, and to raise additional financing.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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**3. TRANSACTIONS WITH RELATED PARTIES**

During the three and nine months ended September 30, 2009, the Company paid \$nil (September 30, 2008 - \$1,000) and \$45,000 (September 30, 2008 - \$8,000), respectively, in interest relating to the secured subordinated notes to related parties.

**4. INVESTMENT IN SOUTHCORE**

During the quarter ended June 30, 2009, the Company entered into a strategic partnership with the Pan Pacific Group International Ltd. ("Pan Pacific") through the shared ownership of Southcore Technologies Ltd. ("Southcore"). Northcore issued 7,500,000 common shares from treasury to Pan Pacific in exchange for a 40 percent interest in Southcore. The shares are to be delivered in two tranches of 3,750,000 shares each. The first tranche was delivered on the closing date of the transaction on June 24, 2009. The second tranche shall be delivered upon the achievement of certain performance criteria.

The investment is recorded using the equity method of accounting. The fair value of the first tranche of 3,750,000 shares multiplied by the closing trading price on the Toronto Stock Exchange ("TSX") immediately preceding the closing date totaling \$544,000, was recorded as the initial investment by the Company. The contingent 3,750,000 shares will be issued to Pan Pacific and recorded as an addition to the investment upon the satisfaction of performance criteria as specified in the agreement. The performance criteria have not been achieved at September 30, 2009.

There were no significant operations in Southcore or gain or loss from equity investment recorded during the period of June 24, 2009 to September 30, 2009.

**5. NOTES PAYABLE**

a) The Series H secured subordinated notes with a principal balance of \$170,000 matured on October 21, 2007. The Company entered into an agreement with the debt holders in December 2007 to repay the accrued interest of \$60,000 in cash in January 2008 and the principal of \$170,000 over a two year term at an interest rate of 11 percent, in blended quarterly interest and principal payments of \$24,000. As of the date of refinancing, the total amount to be repaid was \$230,000 (\$145,000 representing the current portion of notes payable including the accrued interest of \$60,000, and \$85,000 representing the long term portion of notes payable). The notes payable were issued to private investors including an amount totaling \$20,000 issued to a director and officer of the Company. The notes payable mature on December 31, 2009 and are secured as per the Series H security terms.

During the quarter ended September 30, 2009, the Company repaid \$1,000 (September 30, 2008 - \$48,000) and accrued interest in the amount of \$1,000 (September 30, 2008 - \$4,000). During the nine months ended September 30, 2009, the Company repaid \$79,000 (September 30, 2008 - \$108,000) and accrued interest in the amount of \$5,000 (September 30, 2008 - \$15,000). The balance outstanding as at September 30, 2009 is \$30,000.

b) During the quarter ended March 31, 2008, the Company entered into an agreement with the remaining Series G debt holders to repay the accrued interest of \$113,000 and the principal of \$240,000 over a two year term at an interest rate of 12 percent in blended interest and principal quarterly payments of \$40,000. As of the date of refinancing, the total refinanced amount was

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\$353,000 (\$233,000 representing current portion of notes payable including the accrued interest of \$113,000, and \$120,000 representing long term portion of notes payable). The notes payable mature on December 31, 2009 and are secured as per the Series G security terms.

During the quarter ended September 30, 2009, the Company repaid \$nil (September 30, 2008 - \$80,000) and accrued interest in the amount of \$2,000 (September 30, 2008 - \$6,000). During the nine months ended September 30, 2009, the Company repaid \$100,000 (September 30, 2008 - \$145,000) and accrued interest in the amount of \$10,000 (September 30, 2008 - \$23,000). The balance outstanding as at September 30, 2009 is \$125,000. The Company has not made payments for the past two quarters and is currently in negotiation with the note holder over the final settlement amount.

- c) During the quarter ended March 31, 2008, the Company entered into an agreement to assign \$50,000 face value of the Series K secured subordinated notes held by a shareholder of the Company to a Canadian financial institution. The Company agreed to repay the accrued interest and related costs of \$30,000 and the principal of \$50,000 over a two year term at an interest rate of 11 percent in blended interest and principal quarterly payments of \$11,000. The total refinanced amount was \$80,000 (\$52,000 representing current portion of notes payable and \$28,000 representing long term portion of notes payable). The notes payable mature on December 31, 2009 and are secured as per the Series K security terms.

Upon the initial issuance of the Series K secured subordinated notes, the Company separated the liability and equity components. For the \$50,000 face value, the resulting pro rata fair values of the liability component of the notes and the conversion features of the shares were \$27,000 and \$23,000, respectively. The liability component was to be accreted to \$50,000 over the term of the Series K notes through the recording of non-cash interest expense until such date as which the underlying notes were converted into common shares.

As of the date of the assignment, the liability component had been accreted to \$34,000. As a result of the refinancing and the terms of the note payable, the Company recorded the following amounts during the quarter ended March 31, 2008: (1) the equity component of the Series K notes of \$23,000 was transferred to contributed surplus; (2) the 29,000 common shares recorded in the amount of \$4,000, which were issued in settlement of previously recorded interest expense of \$4,000 on the \$50,000 of Series K notes up to the period ended March 31, 2008 were cancelled and the amount was reclassified to the notes payable balance; (3) the 110,000 common shares recorded in the amount of \$17,000, which were issued in settlement of the previously recorded interest expense of \$17,000 on the Series G notes that were rolled into the \$50,000 of Series K notes were cancelled and the amount was reclassified to the notes payable balance; and (4) a charge of \$25,000 was recorded in general and administrative expenses in order to record the face amount of the note payable as of the date of refinancing.

During the quarter ended September 30, 2009, the Company repaid \$nil (September 30, 2008 - \$11,000) and accrued interest in the amount of \$nil (September 30, 2008 - \$2,000). During the nine months ended September 30, 2009, the Company repaid \$53,000 (September 30, 2008 - \$22,000) and accrued interest in the amount of \$1,000 (September 30, 2008 - \$3,000). The balance of the note was repaid in full as at March 31, 2009.

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**6. SECURED SUBORDINATED NOTES**

- a) On June 16, 2009, the Company extended the maturity date of the Series K (“Series K-Extension”) secured subordinated notes with a face value of \$1,020,000 to December 30, 2009. The Series K-Extension notes have an annual interest rate of 11 percent and are convertible into common shares of the Company at a price of \$0.12 per common share. Interest on the Series K-Extension notes is payable in common shares upon the earlier of each quarter end, maturity or conversion of the notes. At any time after the closing, the Series K-Extension notes, including any accrued interest thereon, will be automatically converted into common shares at the Conversion Price when the volume weighted average trading price of the common shares through its principal trading market for a 10 consecutive trading day period is \$0.30 or more. The Series K-Extension notes are secured by a general security agreement on the assets of the Company, subordinated to the security claims provided to the holders of previously issued notes.

As required by Canadian GAAP, the Company separated the liability and equity components of the Series K-Extension secured subordinated notes. The Company determined the fair value of the liability component of the Series K-Extension notes by calculating the present value of the associated cash flows, using a discount rate that reflects the Company’s underlying rate of borrowing. The Company determined the fair value of the conversion feature at the issue date of the Series K-Extension notes using the Cox-Rubinstein binomial valuation model. The resulting pro rata fair values of the liability component of the notes and the conversion features of the shares were \$625,000 and \$395,000, respectively. The liability component will be accreted to \$1,020,000 over the term of the Series K-Extension notes through the recording of a non-cash interest expense until such date at which the underlying notes are converted into common shares.

- b) During the quarter ended June 30, 2009, the remaining \$1,020,000 (face value) balance of the original Series K notes (book value \$1,020,000) matured and was refinanced (See Note 6 (a)). Accordingly, 8,500,000 share conversion features on the original Series K notes, valued at \$462,000, were cancelled. Also during the six months ended June 30, 2009, \$290,000 (face value) of the original Series K notes (book value of \$271,000) were converted into 2,417,000 common shares valued at \$131,000.

During the quarter ended September 30, 2009, \$543,000 (face value) of the Series K-Extension notes (book value of \$399,000) were converted into 4,525,000 common shares valued at \$210,000.

During the quarter ended September 30, 2009, \$53,000 (face value) of the Series J notes (book value of \$31,000) were converted into 353,000 common shares valued at \$25,000. During the nine months ended September 30, 2009, \$195,000 (face value) of the Series J notes (book value of \$105,000) were converted into 1,300,000 common shares valued at \$91,000. During the quarter ended March 31, 2009, 1,500,000 warrant conversion features on the Series J notes, valued at \$60,000, expired as per the terms of the notes.

During the nine months ended September 30, 2009, \$110,000 (face value) of the Series I notes (book value of \$61,000) were converted into 733,000 equity units, represented by 733,000 common shares valued at \$32,000 and 733,000 warrants valued at \$29,000.

During the quarter ended March 31, 2009, \$660,000 (face value) of the Series M notes (book value of \$123,000) were converted into 13,200,000 equity units, represented by 13,200,000 common shares valued at \$306,000 and 13,200,000 warrants valued at \$240,000. The remaining 360,000 warrant conversion features on the Series M notes, valued at \$7,000, have expired as per the terms of the notes.

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**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

- c) As at September 30, 2009, accrued liabilities include \$129,000 (December 31, 2008 - \$234,000) of interest payable relating to the secured subordinated notes.
- d) Accrued liabilities include accrued interest payable to related parties in connection with the secured subordinated notes is as follows:

|              | September 30, 2009 | December 31, 2008 |
|--------------|--------------------|-------------------|
|              | (in thousands)     |                   |
| Series I     | \$ -               | \$ 28             |
| Series J     | -                  | 22                |
| <b>Total</b> | <b>\$ -</b>        | <b>\$ 50</b>      |

- e) Interest payments relating to the secured subordinated notes totaling \$nil were made to related parties in the quarter ended September 30, 2009 (September 30, 2008 - \$1,000).

Interest payments relating to the secured subordinated notes totaling \$45,000 were made to related parties in the nine months ended September 30, 2009 (September 30, 2008 - \$8,000).

- f) The following summarizes the face and fair values of the liability and the equity components of the secured subordinated notes.

| <b>Secured Subordinated Notes</b>                   | <b>Face Value</b> | <b>Carrying Value</b> |
|---|-------------------|-----------------------|
|   | (in thousands)    |                       |
| Opening balance – January 1, 2009                   | \$ 3,638          | \$ 1,855              |
| Accreted (non-cash) interest                        | -                 | 448                   |
| Issuance of notes:                                  |                   |                       |
| Series K-Extension (Note 6 (a))                     | 1,020             | 625                   |
| Conversion of notes:                                |                   |                       |
| Series M (Note 6 (b))                               | (660)             | (123)                 |
| Series K-Extension (Note 6 (b))                     | (543)             | (399)                 |
| Series K (Note 6 (b))                               | (290)             | (271)                 |
| Series J (Note 6 (b))                               | (195)             | (105)                 |
| Series I (Note 6 (b))                               | (110)             | (61)                  |
| Maturity of notes:                                  |                   |                       |
| Series K (Note 6 (b))                               | (1,020)           | (1,020)               |
| <b>Closing balance – September 30, 2009</b>         | <b>\$ 1,840</b>   | <b>\$ 949</b>         |
| Current portion of notes – Series I and K-Extension | \$ 667            | \$ 506                |
| Long-term portion of notes – Series J, L, M and N   | \$ 1,173          | \$ 443                |
| <b>Closing balance – September 30, 2009</b>         | <b>\$ 1,840</b>   | <b>\$ 949</b>         |

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

| <b>Conversion Features on Secured Subordinated Notes<br/>Including Conversion Feature of Attached Warrants</b> | <b>Common Shares<br/>Issuable</b>    | <b>Carrying<br/>Value</b> |
|--|--------------------------------------|---------------------------|
|  | (in thousands of shares and dollars) |                           |
| Opening balance – January 1, 2009  | 67,537                               | \$ 2,280                  |
| Issuance of notes:   |                                      |                           |
| Series K-Extension (Note 6 (a))  | 8,500                                | 395                       |
| Conversion of notes:   |                                      |                           |
| Series M (Note 6 (b))  | (26,400)                             | (546)                     |
| Series K-Extension (Note 6 (b))  | (4,525)                              | (210)                     |
| Series K (Note 6 (b))  | (2,417)                              | (131)                     |
| Series J (Note 6 (b))  | (1,300)                              | (91)                      |
| Series I (Note 6 (b))  | (1,466)                              | (61)                      |
| Expiry of conversion features:   |                                      |                           |
| Series M (Note 6 (b))  | (360)                                | (7)                       |
| Series K (Note 6 (b))  | (8,500)                              | (462)                     |
| Series J (Note 6 (b))  | (1,500)                              | (60)                      |
| Closing balance – September 30, 2009   | 29,569                               | \$ 1,107                  |

**7. SHARE CAPITAL**

a) **Authorized**

Unlimited number of common shares

Unlimited number of preference shares – issuable in series

b) **Outstanding Common Shares**

|                                       | <b>Number</b>                        | <b>Amount</b> |
|---------------------------------------|--------------------------------------|---------------|
|                                       | (in thousands of shares and dollars) |               |
| Opening balance – January 1, 2009     | 109,527                              | \$ 104,676    |
| Conversion of notes (Note 6 (b))      | 22,175                               | 1,729         |
| Payment of interest (Note 7 (c))      | 973                                  | 166           |
| Warrants exercised (Note 9 (b))       | 13,200                               | 1,560         |
| Stock options exercised (Note 10 (d)) | 50                                   | 12            |
| Issuance of treasury shares (Note 4)  | 3,750                                | 544           |
| Equity private placement (Note 7 (d)) | 2,604                                | 407           |
| Closing balance – September 30, 2009  | 152,279                              | \$ 109,094    |

c) **Payment of Interest**

During the quarter ended September 30, 2009, accrued interest in the amount of \$40,000 (September 30, 2008 - \$36,000) relating to Series K and L notes was settled through the issuance of 247,000 (September 30, 2008 – 239,000) common shares based on an average fair value of \$0.16 (September 30, 2008 - \$0.15) per share.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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During the nine months ended September 30, 2009, accrued interest in the amount of \$166,000 (September 30, 2008 - \$111,000) relating to Series K and L was settled through the issuance of 973,000 (September 30, 2008 - 738,000) common shares based on an average fair value of \$0.17 (September 30, 2008 - \$0.15) per share.

**d) Equity Private Placement**

During the quarter ended September 30, 2009, the Company completed a transaction resulting in the issuance of 2,604,000 equity units, priced at \$0.19 per unit, for net proceeds of \$495,000. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant may be converted into a common share at the exercise price of \$0.25 at any time prior to September 30, 2011.

The Company determined the fair value of the common shares and warrants at the issue date using the Cox-Rubinstein binomial valuation model. The resulting pro rata fair values of the 2,604,000 common shares and 1,302,000 warrants, was \$407,000 and \$88,000, respectively.

**8. CONTRIBUTED SURPLUS**

- a) The following table summarizes the transactions within contributed surplus.

|  | (in thousands)  |
|--|-----------------|
| Opening balance – January 1, 2009  | \$ 2,161        |
| Allocation of recorded value of expired warrants (Note 8 (b))  | 266             |
| Allocation of recorded value of expired stock options (Note 8 (c))                                     | 116             |
| Allocation of recorded value of expired conversion features on secured subordinated notes (Note 8 (d)) | 528             |
| <b>Closing balance – September 30, 2009</b>  | <b>\$ 3,071</b> |

- b) During the quarter ended March 31, 2009, recorded value of \$266,000 related to expired warrants was allocated from warrants to contributed surplus (See Note 9 (c)).
- c) During the quarter ended March 31, 2009, recorded value of \$116,000 related to expired non-employees stock options was allocated from stock options to contributed surplus.
- d) During the nine months ended September 30, 2009, recorded value of \$528,000 related to expired conversion features on secured subordinated notes was allocated to contributed surplus (See Note 6 (b)).

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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**9. WARRANTS**

- a) A summary of the changes in the warrants issued and outstanding is as follows:

|                                       | <b>Number</b>                        | <b>Amount</b> |
|---------------------------------------|--------------------------------------|---------------|
|                                       | (in thousands of shares and dollars) |               |
| Opening balance – January 1, 2009     | 10,783                               | \$ 510        |
| Conversion of notes (Note 6 (b))      | 13,933                               | 269           |
| Equity private placement (Note 7 (d)) | 1,302                                | 88            |
| Warrants exercised (Note 9 (b))       | (13,200)                             | (240)         |
| Warrants expired (Note 9 (c))         | (4,783)                              | (266)         |
| Closing balance – September 30, 2009  | 8,035                                | \$ 361        |

b) **Warrants Exercised**

During the quarter ended March 31, 2009, the Company announced the conversion of the Series M secured subordinated notes and the exercising of the associated warrants. Series M note holders have converted \$660,000 out of a total of \$678,000 debentures and exercised a total of 13,200,000 common share-purchase warrants out of a possible 13,560,000 warrants, for total proceeds of \$1,320,000. As per the terms of the debenture, the remaining warrant options have expired (See Note 6 (b)).

As a result of this transaction, the Company issued 26,400,000 common shares, comprised of 13,200,000 common shares from the conversion of the Series M notes and 13,200,000 common shares from the exercising of the associated warrants for total proceeds \$1,320,000. Prior to the conversion, the warrants had a book value of \$240,000.

c) **Warrants Expired**

During 2006, the Company issued 3,533,000 common share-purchase warrants (book value of \$140,000) with an exercise price of \$0.20 and an expiry date of February 8, 2009 as a result of the conversion of the Series J notes. These warrants expired unexercised on February 8, 2009 and were accordingly cancelled.

During 2005, the Company completed a transaction resulting in the issuance of 2,500,000 common shares at a price of \$0.23 per share and 1,250,000 common share-purchase warrants (book value of \$126,000) with an exercise price of \$0.40 and an expiry date of February 23, 2009, for net proceeds of \$570,000. These warrants expired unexercised on February 23, 2009 and were accordingly cancelled.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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**10. STOCK OPTIONS**

- a) As at September 30, 2009, stock options in the amount of 4,686,000 were outstanding to employees and directors, of which 3,956,000 options were exercisable. As at December 31, 2008, stock options in the amount of 3,446,000 were outstanding to employees and directors, of which 3,046,000 options were exercisable.
- b) The Company records compensation expense for stock options granted to employees and directors based on the fair value method of accounting. For the three month periods ended September 30, 2009 and September 30, 2008, the employee stock option expense was \$5,000 and \$9,000, respectively. For the nine month periods ended September 30, 2009 and September 30, 2008, the employee stock option expense was \$92,000 and \$28,000, respectively.
- c) On July 23, 2009, the Company granted 200,000 stock options to a director of the Company. The options have an exercise price of \$0.13 and an expiry date of July 23, 2014. The grant date fair value of \$0.08 per option was valued using the Cox-Rubinstein binomial valuation model with the following assumptions: volatility of 80 percent, a risk free interest rate of three percent, an expected life of five years and a dividend yield of nil. The first 100,000 options will vest in 12 months and the next 100,000 options will vest in 24 months from the date of the grant.

On June 10, 2009, the Company granted 120,000 stock options to directors of the Company. The options have an exercise price of \$0.20 and an expiry date of June 10, 2014. The grant date fair value of \$0.12 per option was valued using the Cox-Rubinstein binomial valuation model with the following assumptions: volatility of 80 percent, a risk free interest rate of three percent, an expected life of five years and a dividend yield of nil. The options vested on the date of the grant.

On April 30, 2009, the Company granted 610,000 stock options to employees, officers and directors of the Company. The options have an exercise price of \$0.12 and an expiry date of April 30, 2014. The grant date fair value of \$0.08 per option was valued using the Cox-Rubinstein binomial valuation model with the following assumptions: volatility of 77 percent, a risk free interest rate of two percent, an expected life of five years and a dividend yield of nil. The options are comprised of two categories: non-performance based options and performance based options. The non-performance based options account for 240,000 of the options granted and vested on the date of the grant. The remaining 370,000 performance based options will vest upon the achievement of specific Company performance objectives. None of the performance based options have vested as at September 30, 2009.

On March 11, 2009, the Company granted 360,000 stock options to officers and directors of the Company. The options have an exercise price of \$0.20 and an expiry date of March 11, 2014. The grant date fair value of \$0.12 per option was valued using the Cox-Rubinstein binomial valuation model with the following assumptions: volatility of 76 percent, a risk free interest rate of two percent, an expected life of five years and a dividend yield of nil. The options vested on the date of the grant.

- d) During the quarter ended March 31, 2009, total proceeds of \$7,000 were realized from the exercise of 30,000 stock options (book value \$3,000) at an exercise price of \$0.15 and 20,000 stock options (book value \$2,000) at an exercise price of \$0.12.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

**11. REVENUES**

Revenues are comprised of the following:

|              | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------|---|-------------|--|-------------|
|              | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
|              | (in thousands)                              |             |  |             |
| Services     | \$ 153                                      | \$ 133      | \$ 341                                     | \$ 351      |
| Hosting fees | 73  | 66          | 226  | 180         |
| Royalty fees | (13)  | 1           | 13   | 33          |
|              | \$ 213                                      | \$ 200      | \$ 580                                     | \$ 564      |

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

During the quarter ended June 30, 2009, the Company recorded a non-recurring reduction in licensing fees a result of settlement of past debts with a creditor for \$240,000 less than the amounts previously recorded.

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

The following table sets forth the changes in non-cash working capital items resulting from the inflow (outflow) of cash in the period.

|                               | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-------------------------------|---|-------------|--|-------------|
|                               | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
|                               | (in thousands)                              |             |  |             |
| Accounts receivable           | \$ (67)                                     | \$ (48)     | \$ 58                                      | \$ (100)    |
| Deposits and prepaid expenses | 6   | 3           | (18)                                       | 7           |
| Accounts payable              | (25)  | (22)        | (278)                                      | 106         |
| Accrued liabilities           | 51  | 90          | 43   | 255         |
| Deferred revenue              | (42)  | (9)         | 70   | 31          |
|                               | \$ (77)                                     | \$ 14       | \$ (125)                                   | \$ 299      |

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

The following table summarizes the non-cash financing activities of the Company.

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
|   | (in thousands)            |             |                          |             |
| Issuance of common shares in settlement of interest payments (Note 7 (c))                               | \$ 40                     | \$ 36       | \$ 166                   | \$ 111      |
| Issuance of Series K-Extension subordinated notes to refinance Series K subordinated notes (Note 6 (a)) | -                         | -           | 1,020                    | -           |
| Issuance of notes payable in settlement of secured subordinated notes and related interest              | -                         | -           | -                        | 80          |

**14. INVESTMENT IN JOINTLY CONTROLLED COMPANY**

The unaudited interim consolidated financial statements of the Company reflect the Company's pro rata share of the joint venture's assets, liabilities, and results of operations in accordance with the proportionate consolidation method of accounting. The effect of proportionate consolidation of the joint venture on the Company's unaudited interim consolidated financial statements is summarized as follows:

| <b>Consolidated Balance Sheets</b> | <b>September 30, 2009</b> | <b>December 31, 2008</b> |
|------------------------------------|---------------------------|--------------------------|
|                                    | (in thousands)            |                          |
| Current assets                     | \$ 16                     | \$ 49                    |
| Current liabilities                | (32)                      | (31)                     |
| Net investment                     | \$ (16)                   | \$ 18                    |

| <b>Consolidated Statements of Operations</b> | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
|  | (in thousands)            |             |                          |             |
| Operating revenues                           | \$ 9                      | \$ 18       | \$ 35                    | \$ 59       |
| Operating expenses                           | -                         | -           | 45                       | 4           |
| Net income (loss)                            | \$ 9                      | \$ 18       | \$ (10)                  | \$ 55       |

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

| <b>Consolidated Statements of Cash Flows</b> | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
|  | (in thousands)                              |             |  |             |
| Operating activities                         | \$ 7  | \$ 12       | \$ 7                                       | \$ (11)     |
| Investing activities                         | -   | -           | -  | -           |
| Financing activities                         | -   | -           | -  | -           |
| Net cash inflow (outflow)                    | \$ 7  | \$ 12       | \$ 7                                       | \$ (11)     |

**15. FINANCIAL RISK FACTORS**

**a) Credit Risk**

Credit risk arises from the potential that a customer will fail to meet its contractual obligations under a software licensing and related services agreement or an e-commerce enabling agreement.

The Company invests its cash and cash equivalents in investments that are of high credit quality. Given these high credit ratings, the Company does not expect any investees to fail to meet their obligations.

Two customers accounted for 58 percent and 41 percent, respectively (September 30, 2008 – two customers accounted for 72 percent and 11 percent, respectively) of revenues for the quarter ended September 30, 2009. Two customers accounted for 58 percent and 25 percent, respectively (September 30, 2008 – two customers accounted for 57 percent and 12 percent, respectively) of revenues for the nine months ended September 30, 2009.

As at September 30, 2009, three customers accounted for 46 percent, 24 percent and 21 percent, respectively (December 31, 2008 – three customers accounted for 66 percent, 13 percent and 12 percent, respectively) of total accounts receivable.

The following table summarizes the aging of accounts receivable as at the reporting date.

|                        | <b>September 30, 2009</b> | <b>December 31, 2008</b> |
|------------------------|---------------------------|--------------------------|
|                        | (in thousands)            |                          |
| Current                | \$ 123                    | \$ 86                    |
| Past due (61-120 days) | 61                        | 35                       |
| Past due (> 120 days)  | 63                        | 184                      |
|                        | \$ 247                    | \$ 305                   |

The allowance for doubtful accounts recorded as at September 30, 2009 was \$59,000 (December 31, 2008 - \$11,000).

**b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, see Going Concern Note 2. The Company manages its liquidity risk by continuously monitoring forecast and actual cash flows.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS** *(Unaudited)*  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**(in Canadian dollars)**

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**16. SUBSEQUENT EVENT**

Subsequent to the quarter ended September 30, 2009, an additional \$477,000 (face value) of the Series K-Extension notes was converted into equity by investors, resulting in the equity conversion of all remaining Series K-Extension notes and the elimination of corresponding debt obligations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2009 and 2008

Dated: November 10, 2009

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### OVERVIEW

Northcore Technologies Inc. (“Northcore” or the “Company”) provides a Working Capital Engine™ that helps organizations source, manage, appraise and sell their capital equipment. Our integrated software solutions and support services are designed for organizations in the financial services, manufacturing, oil and gas, and government sectors to:

- Streamline the sourcing and procurement of critical assets, while reducing purchasing costs;
- Track the location of assets to support improved asset utilization and redeployment of idle equipment;
- Manage the appraisal of used equipment more effectively, resulting in a better understanding of fair market values; and
- Accelerate the sale of surplus assets while generating higher yields.

Northcore owns 50 percent of GE Asset Manager, LLC (also referred to as “GE Asset Manager”), a joint business venture with GE Capital Corporation, through its business division GE Commercial Finance, Capital Solutions (“GE Commercial Finance”). Together, the companies work with leading organizations around the world to help them liberate more capital value from their assets.

Northcore also owns a 40 percent interest in Southcore Technologies Ltd., a strategic partnership with the Pan Pacific Group International Ltd. (“Pan Pacific”). Through this collaboration, Pan Pacific markets Northcore’s proven suite of online products to its broad international business network and connects certain assets of Pan Pacific, on an exclusive basis, with enabling technologies from Northcore.

Northcore’s shares trade on both the Toronto Stock Exchange (TSX: NTI) and the OTC Bulletin Board (OTCBB: NTLNF).

Additional information about Northcore can be obtained at [www.northcore.com](http://www.northcore.com).

### DEVELOPMENTS IN THE THIRD QUARTER OF 2009

Northcore completed the following customer and operating activities in the period:

- Implemented a new media marketing platform supporting high value assets for a major strategic partner that enables high resolution close-up viewing of asset detail, bringing to our industry a new level of image quality similar to that provided by world leading art galleries and museums;
- Worked with a key strategic partner to ensure the GE Asset Manager suite of products meet compliance and regulatory requirements through their certification process;
- Began a “Liberate Your Working Capital” sales campaign in the U.S. and Canada;
- Introduced the Working Capital Engine™ product and services offering by Southcore Technologies Ltd. through participation in the government sponsored eTeck ICT Symposium in Trinidad;
- Closed an equity private placement, securing net proceeds of \$495,000 through the issuance of common shares; and
- Completed a series of debt to equity conversions by investors totaling \$596,000 (face value).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**Dated: November 10, 2009**

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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

Statements contained in this report may include comments that do not refer strictly to historical results or actions and may be deemed to be forward-looking within the meaning of the Safe Harbor provisions of the U.S. federal securities laws. These risks include, among others, statements about expectations of future revenues, cash flows, and cash requirements. Forward-looking statements are subject to risks and uncertainties that may cause our results to differ materially from expectations.

These risks include:

- The timing of our future capital needs and our ability to raise additional capital when needed;
- Our ability to repay our debt to lenders;
- Increasingly longer sales cycles;
- Potential fluctuations in our financial results and our difficulties in forecasting;
- Volatility of the stock markets and fluctuations in the market price of our stock;
- The ability to buy and sell our shares on the Over the Counter Bulletin Board;
- Our ability to compete with other companies in our industry;
- Our dependence upon a limited number of customers;
- Our ability to retain and attract key personnel;
- Risk of significant delays in product development;
- Failure to timely develop or license new technologies;
- Risks relating to any requirement to correct or delay the release of products due to software bugs or errors;
- Risk of system failure or interruption;
- Risks associated with any further dramatic expansions and retractions in the future;
- Risks associated with international operations;
- Problems which may arise in connection with the acquisition or integration of new businesses, products, services, technologies or other strategic relationships;
- Risks associated with protecting our intellectual property, and potentially infringing the intellectual property rights of others;
- Fluctuations in currency exchanges;
- Risks to holders of our common shares following any issuance of our preferred shares; and
- The ability to enforce legal claims against us or our officers or directors.

Other such risks as we may identify and discuss from time to time, including those risks disclosed in the Company's Form 20-F filed with the Securities and Exchange Commission, and Management Information Circular, may also cause our results to differ materially from expectations.

We encourage you to carefully review these risks, as outlined below, to evaluate your existing or potential investment in our securities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2009 and 2008

Dated: November 10, 2009

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### RESULTS OF OPERATIONS

#### Comparison of the Quarters Ended September 30, 2009 and September 30, 2008

The following commentary compares the unaudited consolidated financial results for the three month periods ended September 30, 2009 and September 30, 2008 and analyzes significant changes in the consolidated statements of operations and comprehensive income and consolidated statements of cash flows.

**Overview:** Our loss for the third quarter of 2009 was \$610,000, or \$nil per share, compared to a loss of \$536,000, or \$0.01 per share for the same quarter of 2008. The increase in loss of \$74,000 or 14 percent was mainly due to an increase in operating expenses of \$47,000 and interest expense of \$40,000, partially offset by the increase in revenue of \$13,000.

**Revenues:** Revenues are comprised of services (application development activities, software implementation and license fees, training and consulting, product maintenance and customer support), application hosting and royalty fees.

Revenues for the third quarter of 2009 increased by \$13,000 or seven percent, to \$213,000 as compared to the \$200,000 reported for the third quarter of 2008. The increase in revenues was attributed to the increased demand in services and application hosting fees, partially offset by lower than expected royalty fees due to credit notes issued during the quarter.

Two customers accounted for 58 percent and 41 percent, respectively (September 30, 2008 – two customers accounted for 72 percent and 11 percent, respectively) of revenues for the quarter ended September 30, 2009.

**General and Administrative:** General and administrative expenses include, primarily: all salaries and related expenses (including benefits and payroll taxes) other than technology staff compensation (which is included in customer service and technology expenses), and sales and marketing staff compensation (which is included in sales and marketing expenses), occupancy costs, bad debt expense, foreign exchange gains or losses, professional fees, insurance, investor relations, regulatory filing fees, and travel and related costs.

General and administrative expenses decreased by \$11,000 or three percent, to \$328,000 for the quarter ended September 30, 2009, compared to \$339,000 for the quarter ended September 30, 2008. Savings over the same period of last year include a reduction in financing and licensing fees, partially offset by an increase in investor relations cost.

**Customer Service and Technology:** Customer service and technology costs include all salaries and related expenses associated with the provision of implementation, consulting, application hosting, support and training services. For the quarter ended September 30, 2009, these costs amounted to \$191,000 compared with \$165,000 for the third quarter of 2008, an increase of \$26,000 or 16 percent. The increase in costs was due primarily to the increase in staffing levels compared to the same period of 2008.

**Sales and Marketing:** Sales and marketing costs include all salaries and related expenses for our sales and marketing personnel as well as business development expenses such as advertising, sales support materials, and trade show costs. For the quarter ended September 30, 2009 sales and marketing costs amounted to \$55,000, compared with \$18,000 in the same period of 2008, an increase of \$37,000. The increase was due to the addition of a new sales leader during the second quarter of 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2009 and 2008

Dated: November 10, 2009

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**Employee Stock Options:** For the quarter ended September 30, 2009, employee stock option expense amounted to \$5,000, a slight decrease from the \$9,000 recorded in the same period of 2008.

**Depreciation:** Depreciation expense for the quarter ended September 30, 2009 was \$7,000, consistent with the \$8,000 recorded in the same period of 2008.

**Interest Expense:** Interest expense was \$237,000 for the quarter ended September 30, 2009, compared to \$197,000 for the same quarter of 2008. The issuance of the Series N notes during the fourth quarter of 2008 and the refinancing of the Series K notes during the year contributed to the increase in interest expense. Interest expense for 2009 included a cash interest expense of \$64,000 and a non-cash interest expense of \$173,000 related to the Series I, J, K, L, M and N notes. Interest expense for 2008 included a cash interest expense of \$93,000 and a non-cash interest expense of \$104,000 related to the Series I, J, K, L and M notes.

**Cash Flows from Operating Activities:** Operating activities resulted in cash outflows of \$502,000 for the third quarter of 2009, as compared to cash outflows of \$401,000 for the same period of 2008. The decline in operating cash flows was primarily a result of the decrease in cash flows from non-cash operating working capital as detailed in Note 13.

**Cash Flows from Investing Activities:** During the quarter ended September 30, 2009, new capital assets acquisitions totaled \$18,000, compared to \$nil for the same period of 2008.

**Cash Flows from Financing Activities:** Financing activities generated cash inflows of \$494,000 for the quarter ended September 30, 2009, as compared to cash inflows of \$539,000 for the same period of 2008. Cash inflows during the quarter were realized from an equity private placement that generated proceeds of \$495,000, partially offset by the repayment of notes payable of \$1,000. Cash inflows during the third quarter of 2008 were a result of the issuance of Series M convertible notes that generated proceeds of \$678,000, partially offset by the repayment of notes payable of \$139,000.

### Comparison of the Nine Month Periods Ended September 30, 2009 and September 30, 2008

The following commentary compares the unaudited consolidated financial results for the nine month periods ended September 30, 2009 and September 30, 2008 and analyzes significant changes in the consolidated statements of operations and comprehensive income and consolidated statements of cash flows.

**Overview:** The year-to-date loss for 2009 was \$1,802,000, a loss of \$0.01 per share, consistent with a loss of \$1,803,000 or \$0.02 per share for the same period of 2008.

**Revenues:** Year-to-date revenues increased by \$16,000 or three percent, to \$580,000 for the first nine months of 2009, from \$564,000 for the same period of 2008. The increase in revenues was attributed to the increase in application hosting as a result of additional applications being hosted during 2009, partially offset by a decrease in services and royalty fees.

Two customers accounted for 58 percent and 25 percent, respectively (September 30, 2008 – two customers accounted for 57 percent and 12 percent, respectively) of revenues for the nine months ended September 30, 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2009 and 2008

Dated: November 10, 2009

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**General and Administrative:** General and administrative expenses decreased by \$253,000 or 21 percent, to \$927,000 for the nine month period ending September 30, 2009 from \$1,180,000 for the same period in 2008. Savings over the same period of last year was mainly due to a significant reduction in licensing fees as a result of settlement of past debts for \$240,000 less than the amounts previously recorded and lower financing fees, partially offset by an increase in investor relations and bad debt expense.

**Customer Service and Technology:** Customer service and technology expenses increased by \$27,000 or five percent, to \$545,000 for the nine months ended September 30, 2009, compared to \$518,000 for the same period of 2008. The increase in costs was due primarily to the increase in staffing levels compared to the same period of 2008.

**Sales and Marketing:** Sales and marketing expenses increased by \$24,000 or 24 percent, to \$125,000 for the nine months ended September 30, 2009, compared to \$101,000 for the same period of 2008. The addition of a new sales leader and the related marketing and business development expenses attributed to the increase in sales and marketing costs.

**Employee Stock Options:** Employee stock option expense for the nine months ended September 30, 2009 amounted to \$92,000, compared to \$28,000 in the same period of 2008, an increase of \$64,000. The increase was due to the vesting expense associated with the granting of stock options during 2009.

**Depreciation:** Depreciation expense for the nine months ended September 30, 2009 was \$23,000, consistent with the \$26,000 recorded in the same period of 2008.

**Interest Expense:** Interest expense was \$670,000 for the nine months ended September 30, 2009, compared to \$514,000 for the same period of 2008. The increase was due to the refinancing of the Series K notes during 2009 and the issuance of the Series M and N notes during the second half of 2008. Interest expense for 2009 included a cash interest expense of \$222,000 and a non-cash interest expense of \$448,000 related to the Series I, J, K, L, M and N secured subordinated notes. Interest expense for 2008 included a cash interest expense of \$241,000 and a non-cash interest expense of \$273,000 related to the Series I, J, K, L and M secured subordinated notes.

**Cash Flows from Operating Activities:** Operating activities resulted in cash outflows of \$1,364,000 for the nine months ended September 30, 2009, compared to cash outflows of \$1,177,000 in the same period of 2008. The decline in operating cash outflows was a result of the change in non-cash operating working capital as detailed in Note 13.

**Cash Flows from Investing Activities:** Investing activities resulted in cash outflows of \$25,000 during the nine months ended September 30, 2009, compared to \$nil for the same period of 2008. Cash flows from investing activities were the result of the acquisition of new capital assets during the period.

**Cash Flows from Financing Activities:** Financing activities generated cash inflows of \$1,590,000 for the nine months ended September 30, 2009, as compared to cash inflows of \$929,000 for the same period of 2008. Cash inflows during the year were generated from the issuance of equity units for \$495,000 and the exercise of warrants and options for proceeds of \$1,320,000 and \$7,000, respectively, partially offset by the repayment of notes payable of \$232,000. Financing activities during the 2008 was a result of the issuance of Series L and M convertible notes that generated proceeds of \$1,203,000, partially offset by the repayment of notes payable of \$274,000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**Dated: November 10, 2009**

**SUMMARY OF QUARTERLY RESULTS**

The following table sets forth certain unaudited consolidated statements of operations data for each of the eight most recent quarters that, in management's opinion, consist of normal recurring adjustments, necessary for a fair presentation of the information presented. These operating results are not necessarily indicative of results for any future period. You should not rely on them to predict future performance.

| <b>Quarter ended</b>                        | <b>Sep 30,<br/>2009</b> | <b>Jun 30,<br/>2009</b> | <b>Mar 31,<br/>2009</b> | <b>Dec 31,<br/>2008</b> | <b>Sep 30,<br/>2008</b> | <b>Jun 30,<br/>2008</b> | <b>Mar 31,<br/>2008</b> | <b>Dec 31,<br/>2007</b> |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Revenues                                    | \$ 213                  | \$ 208                  | \$ 159                  | \$ 177                  | \$ 200                  | \$ 207                  | \$ 157                  | \$ 309                  |
| Operating expenses:                         |                         |                         |                         |                         |                         |                         |                         |                         |
| General and administrative                  | 328                     | 159                     | 440                     | 305                     | 339                     | 398                     | 443                     | 413                     |
| Customer service and technology             | 191                     | 180                     | 174                     | 171                     | 165                     | 175                     | 178                     | 207                     |
| Sales and marketing                         | 55                      | 53                      | 17                      | 16                      | 18                      | 21                      | 62                      | 61                      |
| Employee stock options                      | 5                       | 39                      | 48                      | 15                      | 9                       | 9                       | 10                      | 16                      |
| Depreciation                                | 7                       | 8                       | 8                       | 7                       | 8                       | 9                       | 9                       | 10                      |
| Total operating expenses                    | 586                     | 439                     | 687                     | 514                     | 539                     | 612                     | 702                     | 707                     |
| Loss from operations before the under-noted | (373)                   | (231)                   | (528)                   | (337)                   | (339)                   | (405)                   | (545)                   | (398)                   |
| Interest expense:                           |                         |                         |                         |                         |                         |                         |                         |                         |
| Cash interest expense                       | 64                      | 63                      | 95                      | 94                      | 93                      | 80                      | 68                      | 68                      |
| Accretion of secured subordinated notes     | 173                     | 139                     | 136                     | 121                     | 104                     | 90                      | 79                      | 70                      |
| Total interest expense                      | 237                     | 202                     | 231                     | 215                     | 197                     | 170                     | 147                     | 138                     |
| Loss and comprehensive loss for the period  | \$ (610)                | \$ (433)                | \$ (759)                | \$ (552)                | \$ (536)                | \$ (575)                | \$ (692)                | \$ (536)                |
| Loss per share - basic and diluted          | \$ (0.00)               | \$ (0.00)               | \$ (0.01)               | \$ (0.01)               | \$ (0.01)               | \$ (0.01)               | \$ (0.01)               | \$ (0.01)               |

**INVESTMENT IN SOUTHCORE**

During the quarter ended June 30, 2009, the Company entered into a strategic partnership with the Pan Pacific Group International Ltd. ("Pan Pacific") through the shared ownership of Southcore Technologies Ltd. ("Southcore"). Northcore issued 7,500,000 common shares from treasury to Pan Pacific in exchange for a 40 percent interest in Southcore. The shares are to be delivered in two tranches of 3,750,000 shares each. The first tranche was delivered on the closing date of the transaction on June 24, 2009. The second tranche shall be delivered upon the achievement of certain performance criteria.

The investment is recorded using the equity method of accounting. The fair value of the first tranche of 3,750,000 shares multiplied by the closing trading price on the Toronto Stock Exchange ("TSX") immediately preceding the closing date totaling \$544,000, was recorded as the initial investment by the Company. The contingent 3,750,000 shares will be issued to Pan Pacific and recorded as an addition to the investment upon the satisfaction of performance criteria as specified in the agreement. The performance criteria had not been satisfied as at September 30, 2009.

There were no significant operations in Southcore or gain or loss from equity investment recorded during the period of June 24, 2009 to September 30, 2009.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
**Dated: November 10, 2009**

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**TRANSACTIONS WITH RELATED PARTIES**

During the three and nine months ended September 30, 2009, the Company paid \$nil (September 30, 2008 - \$1,000) and \$45,000 (September 30, 2008 - \$8,000), respectively, in interest relating to the secured subordinated notes to related parties.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company has been funded to date primarily through a series of private placements of equity and convertible debentures, sales of equity to and investments from strategic partners, gains from investments and option exercises. Since inception, the Company has received aggregate net proceeds of \$95.3 million from debt and equity financing and has realized \$26.4 million in gains on investment disposals. The Company has not earned profits to date and, at September 30, 2009, has an accumulated deficit of \$115.4 million. The Company expects to incur losses for the remainder of 2009 and there can be no assurance that it will ever achieve profitability. Operating results have varied on a quarterly basis in the past and may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of the Company's control.

The Company has incurred negative annual cash flows from operations since inception and expects to continue to expend substantial funds to continue to develop technology, build an infrastructure to support business development efforts and expand other areas of business including the acquisition of, or strategic investments in, complementary products, businesses or technologies. The Company has historically relied on non-operational sources of financing to fund its operations. The Company's ability to continue as a going concern is dependent on management's ability to successfully execute its business plan and to successfully repay or refinance obligations as they come due. Management believes that it has the ability to raise additional financing. The Company cannot provide assurance that it will be able to execute on its business plan or assure that efforts to raise additional financings would be successful.

Current assets of \$954,000 were exceeded by current liabilities (excluding deferred revenue) of \$1,204,000 at the end of the third quarter of 2009 by \$250,000. Current assets of \$919,000 were exceeded by current liabilities (excluding deferred revenue) of \$1,360,000 by \$441,000 at the end of the second quarter of 2009. Deferred revenue has been excluded from current liabilities as it is expected to be settled by resources other than cash.

Cash decreased by \$26,000 to \$661,000 as at September 30, 2009 from \$687,000 as at June 30, 2009. This decrease in cash was the result of the activities described in the Results from Operations section above.

During the quarter ended September 30, 2009, the Company completed a transaction resulting in the issuance of 2,603,000 equity units, priced at \$0.19 per unit, for net proceeds of \$495,000. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant may be converted into a common share at the exercise price of \$0.25 at any time prior to September 30, 2011.

The Company determined the fair value of the common shares and warrants at the issue date using the Cox-Rubinstein binomial valuation model. The resulting pro rata fair values of the 2,604,000 common shares and 1,302,000 warrants, was \$407,000 and \$88,000, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**CONTRACTUAL OBLIGATIONS**

As at September 30, 2009, the Company's contractual obligations, including payments due by periods over the next five fiscal years, are as follows:

| (in thousands of Canadian dollars)               | <b>Total</b>    | <b>Remainder of 2009</b> | <b>2010</b>   | <b>2011</b>   | <b>2012</b>   | <b>2013 and thereafter</b> |
|--|-----------------|--------------------------|---------------|---------------|---------------|----------------------------|
| Operating leases <sup>(i)</sup>                  | \$ 767          | \$ 13                    | \$ 130        | \$ 156        | \$ 156        | \$ 312                     |
| License agreements <sup>(ii)</sup>               | 312             | 36                       | 48            | 48            | 60            | 120                        |
| Notes payable                                    | 155             | 155                      | -             | -             | -             | -                          |
| Secured subordinated notes - principal repayment | 1,840           | 477                      | 190           | 630           | -             | 543                        |
| Secured subordinated notes - interest payment    | 464             | 28                       | 196           | 73            | -             | 167                        |
|  | <b>\$ 3,538</b> | <b>\$ 709</b>            | <b>\$ 564</b> | <b>\$ 907</b> | <b>\$ 216</b> | <b>\$ 1,142</b>            |

- (i) During the quarter ended September 30, 2009, the Company renewed the office lease agreement for a period of five years, expiring in October 2014, with an initial rent-free period of four months commencing November 2009 and ending in February 2010.
- (ii) During the quarter ended June 30, 2009, the Company entered into a technology licensing agreement with a Fortune 500 company that provides Northcore with access to a portfolio of intellectual property patents over a six year period for a minimum fee of U.S. \$260,000 over the term of the agreement.

**GOING CONCERN**

While the accompanying unaudited interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, certain adverse conditions and events cast substantial doubt upon the validity of this assumption. Financial statements are required to be prepared on a going concern basis unless management either intends to liquidate the Company or cease trading or has no realistic alternative but to do so within the foreseeable future. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations. The Company's ability to continue as a going concern will be dependent on management's ability to successfully execute its business plan including a substantial increase in revenue as well as maintaining operating expenses at or near the same level as 2008. The Company cannot provide assurance that it will be able to execute on its business plan or assure that efforts to raise additional financings would be successful.

The accompanying unaudited interim consolidated financial statements do not include adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not appropriate for these unaudited interim consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net losses and the balance sheet classifications used.

The continued existence beyond September 30, 2009 is dependent on the Company's ability to increase revenue from existing products and services, and to expand the scope of its product offering which entails a combination of internally developed software and business ventures with third parties, and to raise additional financing.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Dated: November 10, 2009**

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**CRITICAL ACCOUNTING ESTIMATES**

The preparation of accompanying unaudited interim consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting years. Estimates are used when determining items such as the allowance for doubtful accounts, the fair value assigned to the debt and equity components of the secured subordinated notes and the expected requirements for non-operational funding. Actual results could differ from those estimates.

**CRITICAL ACCOUNTING POLICIES**

We periodically review our financial reporting and disclosure practices and accounting policies to ensure that they provide accurate and transparent information relative to the current economic and business environment. As part of this process, we have reviewed our selection, application and communication of critical accounting policies and financial disclosures. We have determined that the critical accounting policies related to our core ongoing business activities are primarily those that relate to revenue recognition. Other important accounting policies are described in Note 3 to our audited annual consolidated financial statements for the year ended December 31, 2008.

**ADOPTION OF NEW ACCOUNTING POLICIES**

**Goodwill and Intangible Assets**

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets. This new Handbook Section replaces CICA Handbook Section 3062, Goodwill and Other Intangible Assets, and CICA Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this new standard had no impact on the consolidated financial statements.

**UNADOPTED NEW ACCOUNTING PRONOUNCEMENTS**

**Financial Instruments – Disclosures**

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company is assessing the impact of these amendments on its consolidated financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Month Periods Ended September 30, 2009 and 2008

Dated: November 10, 2009

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### **Business Combinations**

In October of 2008, the CICA issued Handbook Section 1582, Business Combinations, concurrently with Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling Interests. Section 1582, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces CICA Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company will consider the impact of the new standards on its consolidated financial statements if the Company has a business combination.

### **International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period for 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. It has established a project team that is led by finance management and will include representatives from various areas of the Company as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

The implementation of IFRS consists of three primary phases, which in certain cases will be in process concurrently as IFRSs are applied to specific areas from start to finish:

a) **Initial Assessment and Scoping Phase**

This phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. As a result of these procedures, the potential affected areas are ranked as high, medium or low priority.

b) **Impact Analysis, Evaluation and Design Phase**

This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content.

c) **Implementation and Review Phase**

This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Company's finance group and other staff, as necessary.

The Company is currently in the initial assessment and scoping phase. The Company will continue to assess the impact of adopting IFRS and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**  
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## **REVENUE RECOGNITION**

The Company's revenues are derived from services (application development activities, software implementation and license fees, training and consulting, product maintenance and customer support), application hosting and royalty fees. Fees for services are billed separately from licenses of the Company's products. The Company recognizes revenue in accordance with Canadian GAAP, which in the Company's circumstances, are not materially different from the amounts that would be determined under provisions of the American Institute of Certified Public Accountants Statements of Position (SOP) No. 97-2, "Software Revenue Recognition", and as amended by Statement of Position 98-9, "Modification of SOP 97-2, Software revenue Recognition, With Respect to Certain Transactions". The Company also considers the provisions of CICA Emerging Issues Committee (EIC) 141, which is analogous to Staff Accounting Bulletin (SAB) 104, "Revenue Recognition in Financial Statements", and CICA EIC 142, which is analogous to the Emerging Issues Task Force consensus EITF 00-21, "Accounting for Revenue Arrangements with Multiple Elements," in determining the appropriate revenue recognition methodology.

### **Hosting Fees**

The Company earns revenue from the hosting of customer websites and applications. Under our existing hosting contracts, we charge customers a recurring periodic flat fee. The fees are recognized as the hosting services are provided.

### **Application Development Fees**

Typically, development of applications for our customers is provided based on a predetermined fixed hourly rate basis. Revenue is recognized as time is incurred throughout the development process.

### **Software License Revenue**

The Company recognizes software license revenue in accordance with the terms of the license agreement and when the following criteria as set out in SOP No. 97-2 are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- Fee is fixed or determinable; and
- Collectibility is probable.

Software license revenue consists of fixed license fee agreements involving perpetual licenses.

Software license agreements may be part of multiple element arrangements that include consulting and implementation services. When these services are considered essential to the functionality of the license, the associated revenue is recognized on the basis of the percentage of completion method as specified by contract accounting principles. When these services are not considered essential to the functionality of the license, the entire arrangement fee is allocated to each element in the arrangement based on the respective vendor specific objective evidence (VSOE) of the fair value of each element. The amount allocated to license revenues is based on the price charged by the Company when the same element is sold in similar quantities to a customer of a similar size and nature. If this amount is not determinable, the residual software license revenue is the amount of the total arrangement fee less the fair value of any undelivered elements. VSOE used in determining fair value for installation, implementation and training is based on the standard daily rates for the type of service being provided multiplied by the estimated time to complete each task. VSOE used in determining the fair value of maintenance and support is based on the annual renewal rates. The revenue allocable to the software license is recognized when the revenue recognition criteria are met. The revenue allocable to the consulting services is recognized as the services are performed.

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

**For the Three and Nine Month Periods Ended September 30, 2009 and 2008**

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### **Implementation, Training and Consulting Service Fees**

The Company receives revenue from implementation of its product offerings, consulting services and training services. Customers are charged a fee based on time and expenses. Revenue from implementation, consulting services and training fees is recognized as the services are performed or deferred until contractually defined milestones are achieved or until customer acceptance has occurred, as the case may be, for such contracts.

### **Product Maintenance and Customer Support Fees**

The Company receives revenue from maintaining its products and the provision of on-going support services to customers. The maintenance and support fees are typically equal to a specified percentage of the customers' license fee. If associated with the fixed fee license model, the maintenance revenues received are recorded as deferred revenue and recognized on a straight-line basis over the contract period.

Services revenue from maintenance and support is recognized when the services are performed. Maintenance and support revenues paid in advance are non-refundable and are recognized on a straight-line basis over the term of the agreement, which typically is 12 months.

# CORPORATE DIRECTORY

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## DIRECTORS

T. Christopher Bulger <sup>(1), (2), (3)</sup>  
Chairman of the Board

Duncan Copeland  
Chief Executive Officer

Jim Moskos  
Chief Operating Officer

Rick Robertson <sup>(1), (2)</sup>  
Associate Professor of Business  
Richard Ivey School of Business,  
The University of Western Ontario

John Varghese <sup>(1), (2), (3)</sup>  
CEO and Managing Partner  
VentureLink Funds

## OFFICERS

Duncan Copeland  
Chief Executive Officer

Jim Moskos  
Chief Operating Officer

## CORPORATE OFFICE

Northcore Technologies Inc.  
302 The East Mall, Suite 300  
Toronto, Ontario M9B 6C7  
1 888 287 7467

## AUDITORS

KPMG LLP  
Toronto, Ontario, Canada

## SHARES OUTSTANDING

Issued: 152,279,190  
September 30, 2009

## REGISTRAR & TRANSFER AGENT

Equity Transfer and Trust Company  
200 University Avenue, Suite 400  
Toronto, ON M5H 4H1  
1-866-393-4891

## STOCK EXCHANGE LISTINGS

Toronto Stock Exchange  
Symbol: NTI  
OTC Bulletin Board  
Symbol: NTLNF

## ADDITIONAL SHAREHOLDER INFORMATION

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

Email:  
[investor-relations@northcore.com](mailto:investor-relations@northcore.com)

- (1) Member of the Audit Committee
- (2) Member of the Management Resources and Compensation Committee
- (3) Member of the Corporate Governance Committee



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