# ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.

**Audited Consolidated Financial Statements**

**For the years ended March 31, 2013 and 2012**

D+H Group LLP
Chartered Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Anthony Clark International Insurance Brokers Ltd.

We have audited the accompanying consolidated financial statements of Anthony Clark International Insurance Brokers Ltd., which comprise the consolidated balance sheets as at March 31, 2013 and March 31, 2012, and the consolidated statements of operations and comprehensive income (loss), statements of cash flows and statements of shareholders' equity for the years ended March 31, 2013 and March 31, 2012, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Anthony Clark International Insurance Brokers Ltd. as at March 31, 2013 and March 31, 2012, and its financial performance and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with International Financial Reporting Standards.

***"D&H Group LLP"***

**Chartered Accountants**

Vancouver, B.C.
June 24, 2013

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**ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.**
**Consolidated Balance Sheets**
**(Expressed in Canadian dollars)**

| As at | Note | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | $ 1,148,674 | $ 1,387,251 |
| Trade receivables | | 2,062,758 | 2,576,116 |
| Trust cash | | 62,052 | 193,025 |
| Prepaid expenses | | 206,489 | 265,655 |
| | | 3,479,973 | 4,422,047 |
| Property and equipment | 6 | 510,809 | 590,744 |
| Customer accounts | 7 | 1,373,408 | 2,272,957 |
| Goodwill | 8 | 12,391,291 | 12,308,857 |
| | | $ 17,755,481 | $ 19,594,605 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | | $ 1,715,994 | $ 2,318,637 |
| Income taxes payable | | 442,281 | 320,987 |
| Current portion of leasehold inducement | | 72,850 | 72,850 |
| Current portion of long-term debt | 9 | 1,309,448 | 2,604,006 |
| | | 3,540,573 | 5,316,480 |
| Long-term debt | 9 | 16,436,706 | 16,466,238 |
| Leasehold inducement | | 212,479 | 273,188 |
| Deferred income tax | 14 | 73,121 | 79,808 |
| | | 20,262,879 | 22,135,714 |
| **Equity** | | | |
| Share capital | 10 | 9,561,719 | 9,777,222 |
| Accumulated other comprehensive income (loss) | | (61,913) | (94,756) |
| Contributed surplus | | 2,703,024 | 2,524,100 |
| Deficit | | (15,760,394) | (15,827,691) |
| Equity attributable to owners of the Company | | (3,557,564) | (3,621,125) |
| Non-controlling interest in consolidated subsidiary | 11 | 1,050,166 | 1,080,016 |
| | | (2,507,398) | (2,541,109) |
| | | $ 17,755,481 | $ 19,594,605 |

| | |
|---|---|
| Subsequent Event | 20 |
| Commitments | 15 |
| Contingencies | 19 |

*The accompanying notes are an integral part of these consolidated financial statements.*

*"Tony Consalvo"*
Director

*"Rob Sadleir"*
Director

**ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.**
**Consolidated Statements of Operations and Comprehensive Income (Loss)**
**Years ended March 31, 2013 and 2012 (Expressed in Canadian dollars)**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Revenue | | $ 13,047,640 | $ 13,902,742 |
| Expenses | | | |
| Salaries and wages | | 6,031,343 | 6,093,354 |
| General and administrative | | 2,813,315 | 2,932,036 |
| Rent | | 486,517 | 607,992 |
| Share-based compensation | 12 | - | 8,854 |
| | | 9,331,175 | 9,642,236 |
| Earnings before interest, income taxes, depreciation and amortization | | 3,716,465 | 4,260,506 |
| Interest and financing costs | 16 | (1,139,823) | (1,612,456) |
| Depreciation and amortization | 6, 7 | (763,142) | (932,277) |
| Earnings before income taxes | | 1,813,500 | 1,715,773 |
| Income taxes | 14 | | |
| Current | | (825,140) | (1,053,005) |
| Deferred recovery | | 6,687 | 54,456 |
| | | (818,453) | (998,549) |
| Net earnings from continuing operations | | 995,047 | 717,224 |
| Gain from discontinued operations | 5 | 167,973 | 194,072 |
| Net earnings for the year | | 1,163,020 | 911,296 |
| Other comprehensive income (loss) | | | |
| Reclassification adjustment relating to discontinued operations | | 167 | (34,327) |
| Exchange differences on translating foreign operations | | 32,676 | 76,990 |
| Comprehensive income for the year | | $ 1,195,863 | $ 953,959 |
| Earnings (loss) attributable to: | | | |
| Common shareholders | | $ 67,464 | $ (375,171) |
| Non-controlling interest in consolidated subsidiary | | 1,095,556 | 1,286,467 |
| | | $ 1,163,020 | $ 911,296 |
| Comprehensive income (loss) attributable to: | | | |
| Common shareholders | | $ 100,307 | $ (332,508) |
| Non-controlling interest in consolidated subsidiary | | 1,095,556 | 1,286,467 |
| | | $ 1,195,863 | $ 953,959 |
| **Earnings (loss) per share** | | | |
| From continuing and discontinued operations | | | |
| Basic | | $ 0.01 | $ (0.04) |
| Diluted | | $ 0.01 | $ (0.04) |
| From continuing operations | | | |
| Basic | | $ (0.01) | $ (0.06) |
| Diluted | | $ (0.01) | $ (0.06) |

*The accompanying notes are an integral part of these consolidated financial statements.*

**ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.**
**Consolidated Statements of Cash Flows**
**Years ended March 31, 2013 and 2012 (Expressed in Canadian dollars)**

| | Note | 2013 | 2012 |
|---|---|---|---|
| Cash flow from (used in) operating activities | | | |
| Net earnings for the year | | $ 1,163,020 | $ 911,296 |
| Gain from discontinued operations | | (167,973) | (194,072) |
| Net earnings from continuing operations | | 995,047 | 717,224 |
| Adjustments to reconcile net cash provided by operating activities | | | |
| Depreciation and amortization | | 763,142 | 932,277 |
| Deferred income taxes (recovery) | | (6,687) | (54,456) |
| Amortization of deferred financing costs | | 12,865 | 25,188 |
| Interest and penalty on U.S. note payable converted to long term debt | 9(b) | - | 630,620 |
| Share- based compensation | | - | 8,854 |
| | | 1,764,367 | 2,259,707 |
| Changes in non-cash working capital accounts | | | |
| Trade receivables | | (62,876) | (150,589) |
| Prepaid expenses | | 872 | 2,635 |
| Trade payables and accrued liabilities | | (37,090) | 3,712 |
| Deferred revenue | | - | (620,000) |
| Income taxes payable | | 121,294 | 82,182 |
| Leasehold inducement liability | | (60,709) | (18,212) |
| Changes in non-cash working capital accounts from discontinued operations | | (421,587) | 236,827 |
| | | 1,304,271 | 1,796,262 |
| Cash flow from (used in) financing activities | | | |
| Repayments on long-term debt | | (1,411,794) | (1,075,690) |
| Repurchase of shares under issuer bid | | (36,580) | (3,705) |
| Distribution to non-controlling interest | 11 | (1,125,406) | (954,462) |
| | | (2,573,780) | (2,033,857) |
| Cash flow from (used in) investing activities | | | |
| Additions to property and equipment | | (14,146) | (43,129) |
| Proceeds on sale of discontinued operations | 5 | 1,078,120 | 29,340 |
| | | 1,063,974 | (13,789) |
| Effect of foreign exchange | | (33,042) | (8,274) |
| Increase (decrease) in cash during the year | | (238,577) | (259,658) |
| Cash, beginning of the year | | 1,387,251 | 1,646,909 |
| Cash, end of the year | | $ 1,148,674 | $ 1,387,251 |

*Supplemental cash flow information - See Note 18.*

*The accompanying notes are an integral part of these consolidated financial statements.*

**Anthony Clark International Insurance Brokers Ltd.**
**Consolidated Statements of Shareholders' Equity**
**Years ended March 31, 2013 and 2012 (Expressed in Canadian dollars)**

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | | | | |
| | Number of shares | Amount | Accumulated other comprehensive income (loss) | Contributed surplus | Deficit | Equity attributable to owners of the Company | Non-controlling interest in consolidated subsidiary | Total equity |
| Balance as at April 1, 2012 | 9,913,184 | $ 9,777,222 | $ (94,756) | $ 2,524,100 | $ (15,827,691) | $ (3,621,125) | $ 1,080,016 | $ (2,541,109) |
| Distributions to non-controlling interest | - | - | - | - | - | - | (1,125,406) | (1,125,406) |
| Charge to capital on repurchase of shares through issuer bid | (218,500) | (215,503) | - | - | - | (215,503) | - | (215,503) |
| Excess of share stated amount over share redemption amount | - | - | - | 178,924 | - | 178,924 | - | 178,924 |
| Reclassification adjustment relating to discontinued operations | - | - | 167 | - | (167) | - | - | - |
| Exchange difference on translating foreign operations | - | - | 32,676 | - | - | 32,676 | - | 32,676 |
| Net earnings for the year | - | - | - | - | 67,464 | 67,464 | 1,095,556 | 1,163,020 |
| Balance, March 31, 2013 | 9,694,684 | $ 9,561,719 | $ (61,913) | $ 2,703,024 | $ (15,760,394) | $ (3,557,564) | $ 1,050,166 | $ (2,507,398) |
| | | | | | | | | |
| Balance as at April 1, 2011 | 9,540,638 | $ 9,820,700 | $ (137,419) | $ 2,498,163 | $ (15,486,847) | $ (3,305,403) | $ 748,010 | $ (2,557,393) |
| Distributions to non-controlling interest | - | - | - | - | - | - | (954,461) | (954,461) |
| Share-based compensation | - | - | - | 8,854 | - | 8,854 | - | 8,854 |
| Charge to capital on repurchase of shares through issuer bid | (21,000) | (20,795) | - | - | - | (20,795) | - | (20,795) |
| Common shares cancelled for | | | | | | | | |
| Settlement of interest on U.S. note payable | (314,287) | (128,858) | - | - | - | (128,858) | - | (128,858) |
| Common shares issued for management bonuses | 707,833 | 106,175 | - | - | - | 106,175 | - | 106,175 |
| Excess of share stated amount over share redemption amount | - | - | - | 17,083 | - | 17,083 | - | 17,083 |
| Reclassification adjustment relating to discontinued operations | - | - | (34,327) | - | 34,327 | - | - | - |
| Exchange difference on translating foreign operations | - | - | 76,990 | - | - | 76,990 | - | 76,990 |
| Net earnings (loss) for the year | - | - | - | - | (375,171) | (375,171) | 1,286,467 | 911,296 |
| Balance, March 31, 2012 | 9,913,184 | $ 9,777,222 | $ (94,756) | $ 2,524,100 | $ (15,827,691) | $ (3,621,125) | $ 1,080,016 | $ (2,541,109) |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. NATURE OF OPERATIONS

Anthony Clark International Insurance Brokers Ltd. (the “Company”) is an Alberta, Canada Corporation with common shares listed on the TSX Venture Exchange under the trading symbol “ACL” and the OTCQX International under the trading symbol “ACKBF”. The Company’s principal office is located at 102, 7909 Flint Road SE, Calgary, Alberta, Canada, T2H 1G3.

The Company’s principal business activities involve the operation of general insurance brokerages through its various subsidiaries in Canada and the United States. The Company’s significant subsidiaries are: Anthony Clark Insurance Brokers Ltd., Addison York Insurance Brokers Ltd. and American Edge Insurance Services Ltd.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These audited consolidated financial statements and the accompanying notes were authorized for issuance in accordance with a resolution of the Board of Directors on June 24, 2013.

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) which contemplates 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 business.

Financial assets and liabilities are offset and the net amount is reported on the audited consolidated balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

### Basis of Consolidation

The consolidated financial statements of the Company include the accounts of all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company’s accounting policies. Inter-company transactions and balances are eliminated upon consolidation. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Gains or losses on disposals to non-controlling interests are computed and recorded in equity.

### Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are as follows:

*Use of Judgments*

**Cash Generating Units**
The determination of cash generating units ("CGU's") requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU's are determined by geographical area, similar exposure to market risk and materiality.

**Impairment of Customer Accounts**
The assessment of customer accounts for any indications of impairment involves judgment. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss is recognised to the extent that carrying amount exceeds recoverable amount. The assessment requires judgment as to the economic and industry conditions, the estimated future revenues to be generated by the customer accounts, operating costs and the discount rate to be applied to such revenues and costs.

**Income tax**
Management exercises judgment in estimating the provision for income taxes. The Company is subject to income tax laws in various jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

*Use of Estimates*

**Impairment of Goodwill**
Goodwill is assessed for impairment at the CGU level on an annual basis and more frequently if there are potential indicators of impairment. An impairment loss is recognized if the carrying value of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is determined from the greater of fair value less costs to sell or "value in use" calculations based on the net present value of discounted cash flows. Key assumptions used in the calculation of recoverable amounts are: normalized EBITDA (Earnings before interest, taxes and depreciation and amortization) based on past performance and management expectations for the Company and industry and WACC (Weighted Average Cost of Capital).

**Amortization and Depreciation**
Management is required to make certain estimates and assumptions when determining the amortization and depreciation methods and rates and residual values of property and equipment and customer accounts. Useful lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life. Management reviews amortization and depreciation methods, rates, and residual values annually and adjusts amortization and depreciation accordingly on a prospective basis.

**Revenue recognition**
Commission revenue, which is earned by the placement of insurance policies with underwriters, is recognized as of the effective date of each policy provided that collection is believed to be probable. Funds received in respect of revenue not yet earned are accounted for as deferred revenue. Contingent commissions are based on the underwriters' profitability on insurance policies placed by the Company and are recognized when received.

**Trust cash**
Certain premiums collected, net of related commissions, but not yet remitted to insurance carriers are restricted by contract and by law in certain jurisdictions.

**Property and equipment**
Property and equipment is stated at historical cost less accumulated depreciation and, where necessary, write-downs for impairment. Depreciation is calculated over the estimated useful lives of the property and equipment, using the following rates and methods:

Computer equipment - 30% declining balance
Furniture and equipment - 20% declining balance
Leasehold improvements - straight-line over the term of the related lease

The useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates.

**Leasehold inducement liability**
Leasehold inducement liability resulted from leasehold improvements at the inception of a premise lease on the main Canadian location being amortized over the term of the lease.

**Business combinations**
The acquisition method of accounting is used to account for business combinations that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Contingent consideration is included in the cost of acquisition at fair value. Directly attributable transaction costs are expensed in the current period and reported within general and administrative expenses. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. The results of operations and cash flows of an acquired business are included in the Company's financial statements from the date of acquisition.

**Goodwill**
Goodwill results from business combinations and represents the excess of the consideration given over the fair value of identifiable net assets acquired. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

**Customer accounts**
Customer accounts acquired separately are measured initially at cost. Customer accounts acquired in a business combination are recorded at fair value as at the date of acquisition. Following initial recognition, customer accounts are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over estimated useful lives of the acquired customer accounts currently ranging between six and nine years. The useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates.

**Impairment of non-current assets**
The carrying values of the Company's non-financial assets are assessed for impairment when events and circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying amount of goodwill is tested at least annually for impairment. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from the combination. Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold.

The Company performs its annual test for goodwill impairment at March 31. The Company currently has two CGU's. The recoverable amount of the CGU's is determined based on greater of fair market value less costs to sell and the present value of expected future cash flows.

Customer accounts are amortized over their useful lives and assessed for impairment whenever there is an indication that the carrying value may be impaired.

**Leases**
Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

**Finance lease**
Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Operating lease**
Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognized in the statements of operations and comprehensive income on a straight-line basis over the period of the lease.

**Operating segments**
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company operates insurance brokerage operations in Canada and the U.S. Internal reports on the performance of the operating segments are regularly reviewed by senior management, the Company's Chief Executive Officer and by the Board of Directors. The operating segments are reported in compliance with aggregation and materiality criteria resulting in two reporting segments.

**Foreign currency**
The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Functional currency is the currency of the primary economic environment in which the subsidiary operates.

Exchange rates published by the Bank of Canada were used to translate each subsidiary's financial statements into the consolidated financial statements. Assets and liabilities of subsidiaries with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at rates approximating the exchange rate at the transaction date. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

**Earnings (loss) per share**
Earnings (loss) per share is determined by dividing net earnings (loss) attributable to shareholders by the weighted average number of common shares outstanding during the reporting period, which amounted to 9,860,679 (2012 – 9,733,139) common shares. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding for the effects of all potentially dilutive shares, which include share options granted.

**Share-based compensation**
Share-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's shares, the expected lives of awards of share-based compensation, the fair value of the Company's shares and the risk-free interest rate. The estimated fair value of awards of share-based compensation are charged to expense as services are provided and the awards vest, with offsetting amounts recognized as contributed surplus.

**Income taxes**
Current income tax expense is based on the results of operations for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method, providing for temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

The effect of a change in enacted or substantively enacted income tax rates on deferred income tax assets and liabilities is recognized in profit or loss in the period that the change occurs unless the original entry was recorded to equity.

**Treasury stock**
The Company records the repurchase of its shares at the average cost, being total share capital cost divided by total shares outstanding at the time of purchase. The difference between the average cost and actual purchase price is adjusted to contributed surplus.

**Financial instruments**

*Financial assets*
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit and loss.

Financial assets classified as fair value through profit and loss are measured at fair value with unrealized gains and losses recognized through comprehensive income. Cash and trust cash are classified as fair value through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost with gains or losses recognized through comprehensive income when realized or impaired. Trade receivables are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except in comprehensive income when realized or impaired. At March 31, 2013 the Company has not classified any financial assets as available for sale.

*Financial liabilities*
All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit and loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost with gains and losses recognized in comprehensive income when the liability is extinguished. Trade payables and accrued liabilities, and long-term debt are classified as other financial liabilities.

Financial liabilities classified as fair value through profit and loss are measured at fair value with unrealized gains and losses recognized through comprehensive income. At March 31, 2013, the Company has not classified any financial liabilities as fair value through profit and loss.

Transaction costs
Transaction costs associated with financial instruments at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount.

**Related parties**
Related parties are parties that have the ability to control or to exercise significant influence over the Company.

**New standards and interpretations not yet adopted**

The following new standards and standards changes have been issued but are not effective for the financial year beginning on April 1, 2012 and have not been early adopted:

IFRS 9 - *Financial Instruments*. This standard partially replaces IAS 39- *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for years beginning on or after January 1, 2015. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

IFRS 10 - *Consolidated Financial Statements replaces IAS 27- Consolidated and separate financial statements and SIC-12- Consolidation- special purpose entities.* In May 2011, the IASB issued a new standard IFRS 10- *Consolidated Financial Statements*. IFRS 10 is effective for years beginning on or after January 1, 2013. Earlier application is permitted. IFRS 10 defines a single concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of a parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 12 - *Disclosure of Interests in Other Entities*. IFRS 12 replaces the disclosure requirements of IAS 27 – Consolidated and separate financial statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in joint ventures. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. IFRS 12 is effective for years beginning on or after January 1, 2013. Earlier application is permitted.

IFRS 13 - *Fair Value Measurement*. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRS's. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The standard, which may be early adopted, will apply prospectively from the beginning of the year in which it is adopted.

The Company does not expect that application of these standards will have a significant impact on its consolidated financial statements.

## 3. FINANCIAL INSTRUMENTS

a) **Overview**
The Company's activities expose it to a variety of financial risks that arise as a result of its operating and financing activities such as credit risk, liquidity risk, foreign currency risk and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) **Fair value of financial instruments**
The Company's financial instruments as at March 31, 2013 included cash, trust cash, trade receivables, trade payables and accrued liabilities, and long-term debt. The carrying amounts for short term financial assets and liabilities, which includes trade receivables and trade payables and accrued liabilities approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash and trust cash are classified as fair value through profit and loss and therefore are recorded at fair value.

Management estimated the fair value of its long-term debt taking into account market rates of interest, the condition of any related collateral and the current conditions in credit markets applicable to the Company based on recent transactions. The estimated fair value of long-term debt approximates its carrying value.

For financial instruments measured at fair value, disclosure about the inputs to fair value measurements are required, including their classification within a fair value hierarchy that prioritizes the significance of inputs used in making fair value measurements.

Level 1 Fair Value Measurements – quoted prices in active markets for identical assets or liabilities;

Level 2 Fair Value Measurements – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 Fair Value Measurements– inputs for the asset or liability that are not based upon observable market data.

Cash and trust cash is based on Level 1 inputs of the fair value hierarchy.

c) **Financial risk management**
The Company's financial instruments are exposed to certain financial risks, including credit risk, foreign currency risk, interest rate risk and liquidity risk.

*Credit risk*
The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations, or if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions.

The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to cash, trust cash and trade receivables from clients and insurance carriers. Cash is in place with major financial institutions. Concentrations of credit risk with respect to client and insurance carrier trade receivables are limited due to the large number of customers and insurance carriers. See Note 17. The Company has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

As at March 31, 2013, the Company's maximum exposure to credit risk is through the following assets:

| | | |
|---|---|---|
| Trade receivables | $ | 2,062,758 |
| Net credit risk | $ | 2,062,758 |

*Foreign currency risk*
The Company is exposed to the financial risk related to fluctuations of foreign exchange rates. The Company conducts business operations in the United States and has U.S. dollar denominated indebtedness and is therefore exposed to cash flow risks associated with fluctuations in the relative value of the Canadian and U.S. dollar. A significant change in the currency exchange rate of the Canadian dollar relative to the U.S. dollar could have a material effect on the Company's results of operations, financial position and cash flows. The Company does not engage in hedging activities or use financial instruments to reduce its risk exposure.

At March 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

| | | |
|---|---|---|
| Cash | $ | 359,911 |
| Trade receivables | | 462,835 |
| Trade payables and accrued liabilities | | (341,922) |
| Long-term debt | | (3,769,872) |
| Net exposure | $ | (3,289,048) |

Based on the above net exposure at March 31, 2013, and assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease or increase of $ 328,904 in the Company's other comprehensive income (loss).

*Interest rate risk*
All of the Company's indebtedness bears interest at fixed rates and as a result the Company is not exposed to significant interest rate risk arising from long-term debt.

*Liquidity risk*
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its short and long-term obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

The Company manages its liquidity risk through cash and debt management. The Company's objective in managing liquidity risk is to increase revenues, minimize operational costs and to maintain sufficient liquidity in order to meet these operational requirements at any point in time. The Company's ability to obtain funding from external sources may be restricted if the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short-term and long-term debt requirements. The Company mitigates these risks by actively monitoring market conditions and diversifying its sources of funding and debt maturity.

The Company's trade payables are generally due within 60 days. The current portion of long-term debt is due within 12 months.

## 4. CAPITAL RISK MANAGEMENT

The Company considers the capital it manages to be the amounts it has in cash, debt (long-term and short-term borrowings) and equity attributable to owners of the Company.

The Company's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern
- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans
- optimize the cost of its capital at an acceptable level in light of current and future industry, market and economic risks and conditions
- utilize the long-term funding sources to manage its working capital and restructure debt to minimize the cost of its capital
- acquire assets and dispose of non-performing assets

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, repurchase shares, issue debt, acquire or dispose of assets. The Company requires capital to repay existing obligations. There can be no certainty of the Company's ability to refinance its existing obligations. In order to facilitate the management of the Company's capital, the Company prepares annual cash flow forecasts that are updated as necessary depending on various factors and general industry conditions. There were no changes in the Company's approach to capital management.

The declaration and payment of dividends and the amount thereof are at the discretion of the Board. In order to maintain and maximize growth, maintain sufficient liquidity to support its financial obligations and optimize the cost of capital, the Company currently does not pay out dividends.

The Company is also subject to certain working capital covenants on an ongoing basis, which compliance with these covenants has the effect of restricting the availability of cash from the Canadian operations to the other operations of the Company.

See Notes 9, 10 and 11 for description of changes in capital for the years ending March 31, 2013 and 2012.

## 5. DISCONTINUED OPERATIONS

On May 8, 2012, the Company sold the property and equipment, customer accounts and accounts receivables of its Northern California Agency for net sales proceeds of $ 869,272 including transaction costs of $ 208,848. The Company realized a gain from discontinued operations of $ 167,973, which includes the gain on disposal of $ 358,990 from the sale.

**The balance sheet related to the discontinued operations is presented below:**

**Northern California Agency**

| **Balance sheet as at** | | **March 31, 2012** |
|---|---|---|
| Accounts receivable | $ | 255,156 |
| **Total current assets** | $ | 255,156 |
| Property and equipment | $ | 21,917 |
| Customer accounts | | 248,264 |
| **Total non-current assets** | $ | 270,181 |
| **Total Assets** | $ | 525,337 |

On June 8, 2011, the Company sold the property and equipment and customer accounts of its Southern California Agency locations. In conjunction with the sale, the lenders agreed to settle the remaining balance of the U.S. Senior note totaling $5,379,000 (U.S.$5,500,000) for the net sales proceeds of $1,095,360 (U.S.$1,120,000) and terminated and released the Company from all obligations under the loan agreements. The Company realized a gain from discontinued operations of $493,028, which includes the gain on disposal of $524,272 from the sale. The gain on sale of discontinued operations of $524,272 is comprised of a discount on the U.S. loan of $4,283,640 (U.S. $4,380,000) and the net loss on the sale of the assets of $3,759,368.

**The balance sheet related to the discontinued operations is presented below:**

**Southern California Agency**

| **Balance sheet as at** | | **March 31, 2011** |
|---|---|---|
| Property and equipment | $ | 113,061 |
| Goodwill | | 4,541,745 |
| **Total non-current assets** | $ | 4,654,806 |
| | | |
| Long-term debt | $ | 5,344,900 |
| **Non-current liabilities** | $ | 5,344,900 |

**The gain (loss) from discontinued operations for the years ended March 31, 2013 and 2012 is summarized below:**

| | Year ended March 31, 2013 | | | Year ended March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Southern California Agency | Northern California Agency | Total | Southern California Agency | Northern California Agency | Total |
| Revenue from discontinued operations | $ - | $ 131,825 | $ 131,825 | $ 512,170 | $ 1,402,057 | $ 1,914,227 |
| Expenses of discontinued operations | - | (322,842) | (322,842) | (543,414) | (1,701,013) | (2,244,427) |
| Earnings (loss) from discontinued operations | - | (191,017) | (191,017) | (31,244) | (298,956) | (330,200) |
| Gain (loss) on sale of discontinued operations | - | 358,990 | 358,990 | 524,272 | - | 524,272 |
| Gain (loss) from discontinued operations | $ - | $ 167,973 | $ 167,973 | $ 493,028 | $ (298,956) | $ 194,072 |

## 6. PROPERTY AND EQUIPMENT

| Description | Computer equipment | Computer equipment under finance lease | Furniture and equipment | Furniture and equipment under finance lease | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at April 1, 2011 | $ 399,423 | $ 44,203 | $ 359,268 | $ 36,635 | $ 54,491 | $ 894,020 |
| Additions | 6,759 | - | 36,370 | - | 364,250 | 407,379 |
| Dispositions | - | - | - | - | (14,506) | (14,506) |
| Derecognized on disposal of a subsidiary | (119,273) | - | (159,887) | - | - | (279,160) |
| Effects of foreign currency exchange differences | 3,981 | 257 | 3,543 | 377 | 1,123 | 9,281 |
| *Balance at March 31, 2012* | 290,890 | 44,460 | 239,294 | 37,012 | 405,358 | 1,017,014 |
| Additions | 14,146 | 31,452 | - | 7,312 | - | 52,910 |
| Dispositions | - | - | - | - | - | - |
| Derecognized on disposal of a subsidiary | (41,416) | - | (33,071) | - | (13,095) | (87,582) |
| Reclassified from assets under finance lease | 35,065 | (35,065) | 23,224 | (23,224) | - | - |
| Effects of foreign currency exchange differences | 1,465 | 156 | 1,005 | 400 | 470 | 3,496 |
| Balance at March 31, 2013 | $ 300,150 | $ 41,003 | $ 230,452 | $ 21,500 | $ 392,733 | $ 985,838 |
| **Depreciation and impairment losses:** | | | | | | |
| Balance at April 1, 2011 | $ 260,122 | $ 15,572 | $ 177,799 | $ 7,843 | $ 54,491 | $ 515,827 |
| Depreciation | 31,708 | 8,640 | 25,036 | 5,811 | 13,009 | 84,204 |
| Dispositions | - | - | - | - | (14,506) | (14,506) |
| Eliminated on disposal of a subsidiary | (81,213) | - | (84,165) | - | - | (165,378) |
| Effects of foreign currency exchange differences | 2,770 | 54 | 2,123 | 53 | 1,123 | 6,123 |
| *Balance at March 31, 2012* | 213,387 | 24,266 | 120,793 | 13,707 | 54,117 | 426,270 |
| Depreciation | 26,547 | 6,399 | 24,147 | 2,728 | 52,036 | 111,857 |
| Dispositions | - | - | - | - | - | - |
| Eliminated on disposal of a subsidiary | (31,016) | - | (22,113) | - | (13,095) | (66,224) |
| Reclassified from assets under finance lease | 20,460 | (20,460) | 9,847 | (9,847) | - | - |
| Effects of foreign currency exchange differences | 1,480 | 86 | 815 | 275 | 470 | 3,126 |
| Balance at March 31, 2013 | $ 230,858 | $ 10,291 | $ 133,489 | $ 6,863 | $ 93,528 | $ 475,029 |
| **Net book value:** | | | | | | |
| At March 31, 2012 | $ 77,503 | $ 20,194 | $ 118,501 | $ 23,305 | $ 351,241 | $ 590,744 |
| At March 31, 2013 | $ 69,292 | $ 30,712 | $ 96,963 | $ 14,637 | $ 299,205 | $ 510,809 |

## 7. CUSTOMER ACCOUNTS

| | |
|---|---|
| **Cost** | |
| Balance at April 1, 2011 | $ 9,626,363 |
| Additions | - |
| Dispositions | - |
| Effects of foreign currency exchange differences | 28,357 |
| *Balance at March 31, 2012* | 9,654,720 |
| Additions | - |
| Dispositions | (1,038,424) |
| Effects of foreign currency exchange differences | 623 |
| Balance at March 31, 2013 | $ 8,616,919 |
| **Amortization and impairment losses:** | |
| Balance at April 1, 2011 | $ 6,362,987 |
| Amortization | 1,000,303 |
| Impairment loss | - |
| Effects of foreign currency exchange differences | 18,473 |
| *Balance at March 31, 2012* | 7,381,763 |
| Amortization | 651,285 |
| Dispositions | (790,299) |
| Effects of foreign currency exchange differences | 762 |
| Balance at March 31, 2013 | $ 7,243,511 |
| **Net book value:** | |
| At March 31, 2012 | $ 2,272,957 |
| At March 31, 2013 | $ 1,373,408 |

## 8. GOODWILL

| | |
|---|---|
| **Cost** | |
| Balance at April 1, 2011 | $ 20,543,103 |
| Additions | - |
| Dispositions | (8,424,040) |
| Effects of foreign currency exchange differences | 189,794 |
| *Balance at March 31, 2012* | 12,308,857 |
| Additions | - |
| Dispositions | - |
| Effects of foreign currency exchange differences | 82,434 |
| Balance at March 31, 2013 | $ 12,391,291 |
| | |
| **Impairment losses:** | |
| Balance at April 1, 2011 | $ 3,828,892 |
| Impairment losses | - |
| Derecognized on disposal of a subsidiary | (3,853,320) |
| Effects of foreign currency exchange differences | 24,428 |
| *Balance at March 31, 2012* | - |
| Impairment losses | - |
| Derecognized on disposal of a subsidiary | - |
| Effects of foreign currency exchange differences | - |
| Balance at March 31, 2013 | $ - |
| | |
| **Net book value:** | |
| At March 31, 2012 | $ 12,308,857 |
| At March 31, 2013 | $ 12,391,291 |

**Impairment test of goodwill**

The Company performed its annual test for goodwill impairment as at March 31, 2013 in accordance with its policy described in Note 2.

The test results indicate that the recoverable amount of each CGU exceeded its carrying value and no impairment loss for goodwill has been recognized for the year ended March 31, 2013.

The Company has 2 CGU's, both of which include goodwill.

| | Carrying amount of goodwill at | |
|---|---|---|
| Cash Generating Unit | March 31, 2013 | March 31, 2012 |
| Canada | $ 7,317,360 | $ 7,317,360 |
| US - Virginia | 5,073,931 | 4,991,497 |
| Total Goodwill | $ 12,391,291 | $ 12,308,857 |

The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test are described below. The selection and application of valuation techniques and the determination of significant assumptions requires judgment.

Valuation technique
The recoverable amount of each CGU was based on the fair value less cost to sell using a market approach. The market approach assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate the fair value. Under the market approach, fair value is calculated based on earnings before interest, taxes and depreciation and amortization ("EBITDA") multiples of benchmark companies comparable to the business in each CGU.

The EBITDA multiples were also compared to internally calculated weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves

as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of each unit.

Assumptions
The WACC used by the Company for testing ranged from 8% to 19% (March 31, 2012- 8% to 18%). Normalized EBITDA was based on past performance and management expectations for the Company. The key assumptions described may change as economic and market conditions change.

The fair value for each CGU was in excess of its carrying value. The Company is not aware of any reasonably possible change in any of the above key assumptions that would cause the carrying value of the Canada CGU to exceed its recoverable amount. The US- Virginia CGU fair value was in excess of carrying value by 6%. The fair value would be equal to the carrying value of the US- Virginia CGU if there was an 6% decrease in normalized EBITDA or a 1% increase in the WACC.

## 9. LONG-TERM DEBT

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Senior notes – 4.5% – 6.75%, due between June 2018 and January 2019 (a) | $ 14,042,739 | $ 15,187,876 |
| U.S. Note payable – 6.75% interest only, due February 2017 (b) | 2,539,000 | 2,497,750 |
| U.S. Note payable – 12% interest only, due June 2015 (b) | 1,218,720 | 1,448,695 |
| Obligations under capital leases, collateralized by the assets under lease | 37,868 | 15,981 |
| | 17,838,327 | 19,150,302 |
| Deferred financing costs | (154,039) | (128,649) |
| Accumulated amortization | 61,866 | 48,591 |
| | (92,173) | (80,058) |
| | 17,746,154 | 19,070,244 |
| Less: Current Portion | (1,309,448) | (2,604,006) |
| | $ 16,436,706 | $ 16,466,238 |

a) Per amendments to the loan agreement, the Company had principal repayment holidays on one Senior note ($6,921,582) totaling $805,505 from March 1, 2011 to March 1, 2012. Effective March 31, 2012, the terms of the Senior notes were amended to increase the amortization period from the remaining approximate six to seven years, to ten years, with maturity dates remaining between 2018 and 2019.

The Senior notes are secured by the Canadian assets only with a guarantee provided by the Company.

The Company is also subject to certain covenants on an ongoing basis, with failure to maintain compliance resulting in the loans becoming due on demand. The Company is in compliance with the covenants.

b) Year ended March 31, 2012
From January 2011 until February 2012, the Company withheld interest payments on the U.S.$ 3,250,000 note payable resulting in a default of the U.S. note payable and the U.S. note payable becoming due on demand. As a result of the default, the interest rate was increased from 14% to 19% resulting in $ 169,816 in additional interest payments and a penalty charge of $ 59,126.

On February 21, 2012, the Company and the U.S. lender reached a memorandum of understanding of the terms for the settlement and restructuring of the U.S. $3,250,000 note, outstanding interest and penalties, whereby the existing note will be cancelled and restructured for cash and a new note. A formal agreement has not been completed. Under the terms of the memorandum of understanding, the Company paid principal payments of U.S. $50,000 on acceptance of the amended terms and U.S. $250,000 on April 15, 2012. The Company is required to pay U.S. $1,200,000 by August 21, 2012. In addition, a new note will be issued for

the remaining U.S. $2,500,000 maturing in five years with interest only payments at 6.75% per annum. See note 10c.

Year ended March 31, 2013
On August 21, 2012, the formal agreement was finalized with the lender according to the memorandum of understanding and in addition also provided for 30 day extensions on the U.S. $1,200,000 note payable. New notes were issued for U.S. $2,500,000 maturing in five years with interest only payments at 6.75% per annum and U.S. $1,200,000 bearing interest at 0.5625% for the month ending September 21, 2012 and then subject to interest at 1% per month for each 30 day extension beginning September 21, 2012.

On March 18, 2013, the Company and the U.S. lender agreed to the terms for restructuring the U.S. $1,200,000 note payable whereby the existing note was cancelled and restructured for cash and a new note. Under the new promissory note, the Company will make six principal payments of U.S. $25,000; on April 15, 2013, September 1, 2013, January 2, 2014, June 1, 2014, September 1, 2014, and January 2, 2015, with the remaining balance maturing on June 1, 2015. Interest only payments at 12% per annum continue on the unpaid balance until maturity of the loan. In addition, the Company paid a U.S. $25,000 fee to the lender related to this restructuring.

The U.S. denominated debt is secured by the U.S. assets only with a guarantee provided by the Company.

c) The Company is obligated to make the following principal payments in each of the next six fiscal years:

| | |
|---|---|
| 2014 | $ 1,309,448 |
| 2015 | 1,383,007 |
| 2016 | 2,441,829 |
| 2017 | 3,991,814 |
| 2018 | 1,541,333 |
| 2019 | 7,170,896 |
| | $ 17,838,327 |

## 10. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value
Unlimited class B voting preferred shares without par value
Unlimited class C non-voting preferred shares without par value

Issued

All common shares issued are fully paid, carry one vote per share and carry a right to dividends.

b) Normal Course Issuer Bid

The Company receives regulatory approval from the TSX Venture Exchange (the "Exchange") to make a normal course issuer bid. Pursuant to the bid, the Company could purchase up to 10% of its common shares issued and outstanding at the time of the bid.

- 2013 - The bid commenced May 19, 2012 and will terminate on May 18, 2013 and pursuant to the bid, the Company has approval to purchase up to 1,022,447 of its common shares. The Company has repurchased 215,500 common shares under the bid.

- 2012 - The bid commenced May 19, 2011 and terminated on May 18, 2012 and pursuant to the bid, the Company had approval to purchase up to 954,063 of its common shares. The Company repurchased 24,000 common shares under the bid. As at March 31, 2012, 7,500 of the repurchased shares were cancelled subsequent to the year end on April 13, 2012.

c) Common Shares Issued for Settlement of Interest on U.S. Note Payable

Beginning January 1, 2010, 4% of the annual interest payments due on the U.S. Note payable were to be paid in common shares of the Company until maturity of the loan on April 30, 2012. The pricing of the common shares issued was determined based on the current trading price of the common shares of the Company as at the close of business on the first trading day after January 1st each year. With the required regulatory approvals

received, the Company issued common shares for 4% of interest payable as follows: 2011- 314,287 common shares at $0.41 per share and 2010- 272,061 common shares at $0.50 per share.

As part of the formal agreement for the settlement and restructuring of the U.S. Note payable finalized with the U.S. lender on August 21, 2012, the 2011 outstanding and future interest payments of 4% on the U.S. Note payable will be payable in cash not common shares. In accordance with the formal agreement, the 314,287 common shares issued in 2011 were cancelled. See note 9(b) .

## 11. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARY

On June 10, 2008, April 23, 2009 and July 14, 2010, the Company closed equity financings under which a non-controlling interest, totaling 49% of a consolidated subsidiary of the Company which operates the Canadian operations, was sold. Under IFRS, transactions with non-controlling interests are treated as transactions with equity owners of the Company. Gains or losses on disposals to non-controlling interests are computed and recorded in equity.

Within the unanimous shareholder agreement, there is a contingent put option with the non-controlling shareholder. See note 19.

Distributions from the Canadian operations to the parent and non-controlling shareholder are paid as and when approved by the Board of Directors of the Canadian subsidiary. The distributions are based on a formula in the unanimous shareholder agreement.

The non-controlling shareholder is the lender on the Senior notes. See note 9.

## 12. SHARE-BASED COMPENSATION

The Company has an incentive share option plan, which provides for the award of share options to directors, officers, employees and consultants. A maximum of 1,601,395 common shares remain reserved under the plan. The terms and exercise prices of all share option awards are determined by the directors at the time of issue.

Changes in share options during the years ended March 31, 2013 and 2012 are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Outstanding, beginning and end of year | 450,000 | $ 0.36 | 450,000 | $ 0.36 |

The following table sets forth information relating to share options outstanding as at March 31, 2013:

| Expiry | Exercise price | Number outstanding at March 31, 2013 | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at March 31, 2013 | Weighted average exercise price |
|---|---|---|---|---|---|---|
| April 1, 2013 | $ 0.36 | 450,000 | - | $ 0.36 | 450,000 | $ 0.36 |

## 13. RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties from time to time in the normal course of business, as well as key management personnel.

During the year ended March 31, 2013, the Company incurred $ 2,365 (2012- $ nil) of consulting fees charged by a director.

### Compensation of key management personnel

Key management personnel are comprised of all members of the Board of Directors and the Named Officers (as defined in Form 51-102F6 Statement of Executive compensation and disclosed in the Company's Management Proxy Circular in connection with its annual meeting of shareholders). The summary of compensation of key management personnel for the year is as follows:

| For the years ended March 31, | 2013 | 2012 |
|---|---|---|
| Salary and bonuses | $ 506,153 | $ 691,153 |
| Short-term employee benefits | 15,132 | 25,105 |
| Total compensation of key management personnel | $ 521,285 | $ 716,258 |

## 14. INCOME TAXES

### a) Tax provision

The provision for income tax differs from the result which would have been obtained by applying the statutory income tax rate of 25% (2012 - 26.13%) to the Company's net income (loss) before income taxes. The difference results from the following items:

| | 2013 | 2012 |
|---|---|---|
| Net income before income taxes | $ 1,813,500 | $ 1,715,773 |
| Expected income tax expense (recovery) | 453,375 | 428,943 |
| Permanent items | 4,957 | 2,314 |
| Effect of foreign income tax rate differences | (45,670) | (67,999) |
| Rate changes during the year | 41,181 | 46,561 |
| Unrecognized deferred tax asset (liability) | 380,564 | 530,057 |
| Other | (15,954) | 58,673 |
| Total tax expense | $ 818,453 | $ 998,549 |

The change in the statutory rate is as a result of the reduction of the Canadian federal corporate income tax rate.

**b) Recognized deferred tax liability**

The recognized income tax effects of temporary differences that give rise to signficant deferred tax assets and liabilities are as follows:

| | March 31, 2013 | March 31, 2012 | March 31, 2011 |
|---|---|---|---|
| Customer accounts without tax basis | $ (76,807) | $ (103,029) | $ (134,283) |
| Goodwill | (1,114,599) | (969,810) | (136,987) |
| | (1,191,406) | (1,072,839) | (271,270) |
| Other assets | 1,118,285 | 993,031 | 137,006 |
| | $ (73,121) | $ (79,808) | $ (134,264) |

**c) Movements in the tax effect of the temporary differences during the year are as follows:**

| | April 1, 2011 | Recognized in profit and loss | March 31, 2012 | Recognized in profit and loss | March 31, 2013 |
|---|---|---|---|---|---|
| Customer accounts without tax basis | $ (134,283) | $ 31,254 | $ (103,029) | $ 26,222 | $ (76,807) |
| Goodwill | (136,987) | (832,823) | (969,810) | (144,789) | (1,114,599) |
| Other assets | 137,006 | 856,025 | 993,031 | 125,254 | 1,118,285 |
| | $ (134,264) | $ 54,456 | $ (79,808) | $ 6,687 | $ (73,121) |

**d) Unrecognized deferred tax assets**

The tax effect of the Company's deferred tax assets have not been recognized in respect of the following:

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Customer Accounts, with tax basis | $ 267,291 | $ 518,913 |
| Other assets | 1,974,357 | 1,883,223 |
| Non capital losses | 5,903,991 | 5,236,125 |
| | $ 8,145,639 | $ 7,638,261 |

As at March 31, 2013, the Company had accumulated Canadian non-capital losses of approximately $3,515,000 which commence expiring in 2031 and U.S. net operating losses of approximately U.S. $12,774,000 which commence expiring in 2023 and can be carried forward and charged against future taxable income, with some restrictions. The benefit of these losses, the customer accounts and the other assets have not been reflected in the financial statements.

**15. COMMITMENTS**

The Company leases office premises under operating leases that expire at various dates during the 2014 through 2019 fiscal years. In addition, the Company has current obligations under certain advertising contracts. The Company's minimum lease and other payments under the agreements are as follows:

| | |
|---|---|
| 2014 | $ 657,101 |
| 2015 | 317,610 |
| 2016 | 275,492 |
| 2017 | 200,931 |

| | |
|---|---|
| 2018 | 186,114 |
| 2019 | 139,586 |
| | $ 1,776,834 |

## 16. INTEREST AND FINANCING COSTS

| | 2013 | 2012 |
|---|---|---|
| **Canadian operations** | | |
| Interest on long-term debt | $ 869,169 | $ 933,721 |
| Amortization of deferred financing costs and loan discount | 12,865 | 12,865 |
| Interest on obligations under capital lease | 3,181 | 1,810 |
| | 885,215 | 948,396 |
| **U.S. operations** | | |
| Interest on long-term debt | $ 252,016 | $ 649,137 |
| Amortization of deferred financing costs and loan discount | - | 12,323 |
| Interest on obligations under capital lease | 2,592 | 2,600 |
| | 254,608 | 664,060 |
| | $ 1,139,823 | $ 1,612,456 |

## 17. SEGMENTED INFORMATION

The Company operates in two different geographic regions, Canada and the United States. Each geographic region is subject to different regulatory environments.

**Year ended March 31, 2013**

| Operating Segments | Canada | U.S. | Corporate and other (1) | Consolidated |
|---|---|---|---|---|
| Revenue | $ 9,886,810 | $ 3,160,830 | $ - | $ 13,047,640 |
| Operating expenses | 5,685,509 | 2,740,483 | 905,183 | 9,331,175 |
| Earnings before interest, income taxes, depreciation and amortization | 4,201,301 | 420,347 | (905,183) | 3,716,465 |
| Depreciation and amortization | 748,686 | 14,456 | - | 763,142 |
| Interest and financing costs | 885,215 | 254,608 | - | 1,139,823 |
| Income tax expense | 815,066 | - | 3,387 | 818,453 |
| Net earnings (loss) from continuing operations | 1,752,334 | 151,283 | (908,570) | 995,047 |
| Gain (loss) from discontinued operations | - | 167,973 | - | 167,973 |
| Total assets (2) | 11,621,661 | 6,062,953 | 70,867 | 17,755,481 |
| Total liabilities | 15,672,407 | 4,026,832 | 563,640 | 20,262,879 |
| Non-current assets | 9,151,414 | 5,124,094 | - | 14,275,508 |

| Year ended March 31, 2012 | | | | |
|---|---|---|---|---|
| **Operating Segments** | **Canada** | **U.S.** | **Corporate and other (1)** | **Consolidated** |
| Revenue | $ 10,726,276 | $ 3,176,466 | $ - | $ 13,902,742 |
| Operating expenses | 5,729,607 | 2,735,521 | 1,177,108 | 9,642,236 |
| Earnings before interest, income taxes, depreciation and amortization | 4,996,669 | 440,945 | (1,177,108) | 4,260,506 |
| Depreciation and amortization | 914,946 | 17,331 | - | 932,277 |
| Interest and financing costs | 948,396 | 664,060 | - | 1,612,456 |
| Income tax expense (recovery) | 988,897 | - | 9,652 | 998,549 |
| Net earnings (loss) from continuing operations | 2,144,430 | (240,446) | (1,186,760) | 717,224 |
| Gain (loss) from discontinued operations | - | 194,072 | - | 194,072 |
| Total assets (2) | 12,350,590 | 7,096,226 | 147,789 | 19,594,605 |
| Total liabilities | 16,833,055 | 4,843,603 | 459,056 | 22,135,714 |
| Non-current assets | 9,857,598 | 5,314,960 | - | 15,172,558 |

*(1) Corporate and other operating profit includes corporate expenses, certain share-based compensation costs, and other operating expenditures that are not allocated.*
*(2) All assets are allocated to the operating segments that utilize and manage the assets.*

The majority of the Company's revenues are earned by selling general insurance to more than 50,000 customers. The Company also earns certain revenues from the insurance carriers in the form of contingency income and other incentives. Contingent income is based on the insurance carrier's profitability on insurance policies placed by the Company. The Company places its customer insurance policies with a variety of insurance carriers.

Included in revenue for the year ended March 31, 2013 are approximately 72% of revenues which arose from placing insurance policies and earning contingent income with the Company's three largest insurance carriers (each of the three largest insurance carriers percentage of revenue is as follows: 51%, 11% and 10%) which are reflected in the Canadian operating segment.

Included in revenue for the year ended March 31, 2012 are approximately 67% of revenues which arose from placing insurance policies and earning contingent income with the Company's two largest insurance carriers (each of the two largest insurance carriers percentage of revenue is as follows: 57% and 10%) which are reflected in the Canadian operating segment.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

During the years ending March 31, 2013 and 2012, the Company had non-cash transactions as follows:

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Operating activities** | | |
| Interest and penalties on U.S. note payable reclassified to U.S. note payable | $ - | $ (630,620) |
| Interest accrued reclassified to U.S. note payable | - | (116,530) |
| Management bonus settled with common shares | - | (106,175) |
| | - | (853,325) |
| **Financing activities** | | |
| Interest and penalties on U.S. note payable reclassified to U.S. note payable | - | 747,150 |
| Repayment on long-term debt with proceeds on sale of discontinued operations | - | (1,095,360) |
| Capital lease for financing property and equipment purchase | 38,764 | - |
| Leasehold liability for financing leasehold inducement | - | 364,250 |
| Common shares issued to settle management bonus | - | 106,175 |
| | 38,764 | 122,215 |
| **Investing activities** | | |
| Proceeds on sale of discontinued operations used to repay long-term debt | - | 1,095,360 |
| Property and equipment additions financed by capital lease | (38,764) | - |
| Leasehold inducement financed by leasehold liability | - | (364,250) |
| | (38,764) | 731,110 |
| | $ - | $ - |
| Additional Information: | | |
| Interest paid | $ 1,134,429 | $ 990,655 |
| Income taxes paid | $ 707,260 | $ 977,461 |

## 19. CONTINGENCIES

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, or breach of contract incidental to the operations of its business. The Company is not currently involved in any such incidental litigation which it believes could have a materially adverse effect on its financial condition or results of operations.

As part of the unanimous shareholder agreement with the non-controlling interest, there is a contingent put option which if exercised will require the Company to purchase the non-controlling interest. The contingent put option can only be exercised, within 60 days written notice, if:

- There is an arm's length third party offer to purchase the consolidated subsidiary and the non-controlling shareholder wishes to accept, but the Company does not, then the non-controlling shareholder can exercise the put option for the price set out in the offer, or
- There is a change of control in the consolidated subsidiary or the Company, the non-controlling shareholder can exercise the put option for the higher of fair value formula in the unanimous shareholder agreement or the price set out in the change of control transaction.

There is uncertainty as to the occurrence, timing and amount of the cash outflow since the put option is contingent on a third party offer or purchase. See note 11.

## 20. SUBSEQUENT EVENT

The Company received regulatory approval from the TSX Venture Exchange ("The Exchange") to make a normal course issuer bid. Pursuant to the bid, the Company could purchase up to 969,168 of its common shares which represents approximately 10% of the common shares issued and outstanding. The bid commenced May 20, 2013 and will terminate on May 19, 2014. There have been 37,500 shares purchased under this bid. A further 4,500 shares were purchased after the year end under the prior issuer bid.