



ANTHONY CLARK INTERNATIONAL  
INSURANCE BROKERS LTD.

# ANNUAL FINANCIAL REPORT

MARCH 31, 2011

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.

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TSX Venture Exchange: ACL

OTCQX International: ACKBF

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## COMPANY PROFILE

*The Company's head office and principal business office is located at Suite 355, 10333 Southport Road S.W., Calgary, Alberta, Canada T2W 3X6.*

*The Company's registered office is located at Suite 1200, 1015 – 4th Street S.W., Calgary, Alberta, Canada T2R 1J4.*

The Company operates as a general insurance brokerage through its various subsidiaries and has been in business since 1989. The Company has expanded through internal growth and acquisitions. The Company carries on its current operations in Alberta, Canada and the States of California and Virginia, U.S.A. The Company operates out of nineteen locations: 7 in Alberta; 1 in California and 11 in Virginia. The Company started its Proprietary Private Label Program in Virginia which has now been in effect for one year. The Company continues to look for quality accretive acquisitions, seek capital injection to reduce debt, streamline costs and review divesture of underperforming assets to increase shareholder value.

The Company is evolving from a “Transaction” insurance broker to a “Destination” insurance broker. The focus will remain on the essential transactions of insurance including presenting competitive rates to our clients through the best possible technology, assisting in the claims process and providing the client with an option of various insurance companies. By implementing strategic initiatives, the Company is transforming the customer-care culture by offering multiple policy discounts, concierge claims service and a relentless focus on customer service. The result is improved customer loyalty leading to longer retention and increased customer referrals.

With more and more insurance being purchased online, the Company has also developed an internet strategy with the help of its carriers and suppliers. In addition, Search Engine Marketing (SEM) and Search Engine Optimization (SEO) campaigns are also being used to provide customers with an option to obtain a quote or to purchase insurance over the internet.

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## 2011 HIGHLIGHTS

Year Ended March 31	2011	2010
Revenue	\$ 16,606,708	\$ 18,661,401
Earnings from operations (EBITDA) (1)	\$ 3,169,052	\$ 4,283,586
Total Assets	\$ 25,309,668	\$ 28,475,672
Total Liabilities and Shareholders' Equity	\$ 25,309,668	\$ 28,475,672
Cash, end of year	\$ 1,646,909	\$ 2,638,036
Common Shares Outstanding at year end	9,540,638	9,773,851

(1) Before interest, taxes, depreciation and amortization and other. EBITDA is reconciled to Net Earnings (loss) on the Five Year Summary page at the end of the report.

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## PRESIDENT'S MESSAGE

### STAYING THE COURSE

Although this past year presented many challenges, we are pleased with what we accomplished. We completed the sale of our non performing asset Low Cost Insurance, our Southern California non-standard automobile retail operation. The financial results of the Southern California operation have been adversely impacted as a result of the economic conditions and decreased market demand in the State of California. With the sale of this division, we were able to decrease our debt position by U.S. \$5,500,000 and are now able to spend more time on the operations that provide positive cash flows.

The Proprietary Private Label program, American Edge Insurance Services ("American Edge"), has been in effect for one year. The product development on a macro level is an ongoing process. While being a labor intensive process, we are seeing the positive enhanced commission structure adding to our net earnings. Marketing, product design and distribution of our product are the visible elements of American Edge, but our success is directly dependent on our operational skills and the individuals who execute, lead, and design the processes we follow.

We are evolving from a "Transaction" insurance broker to a "Destination" insurance broker. We still remain focused on the essential transactions of insurance including presenting competitive rates to our clients through the best possible technology, assisting in the claims process and providing the client with an option of various insurance companies. What is transforming is a better customer-care culture which in turn results in improved customer loyalty leading to longer retention and increased customer referrals. Creating the environment where customers want to stay involves strategic initiatives, such as offering multiple policy discounts, concierge claims service and a relentless focus on customer service.

Agents have always helped customers reach decisions on price and coverage. I believe with the internet, the consumer is more aware of the insurance that is purchased. With that in mind, we have developed an internet strategy in the U.S. and Canada. We have become an industry leader with insurance being purchased via the internet using Search Engine Marketing (SEM) and Search Engine Optimization (SEO) campaigns and using our relationship with carriers and suppliers.

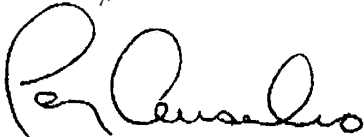
As required by the Canadian Accounting Standards Board, the Company will be adopting International Financial Reporting Standards (IFRS) beginning with its first quarter of its 2012 fiscal year. We have completed substantially all the activities required to change to IFRS. Based on the Company's analysis of the accounting differences between Canadian GAAP and existing IFRS, the transition to IFRS will not have a significant impact on the financial position of the Company in the year ending 2012.

Any CEO knows that a successful Company depends upon the teamwork of the Company's employees. I wish to thank Senior Management and all our employees for a year that has been adversely affected by the weak economy and soft insurance rate environment. We still held our own.

I would like to personally thank our Board of Directors who has certainly assisted to guide the Company in times of an unstable economic environment.

I would like to thank the Shareholders for their continuing patience.

Sincerely,



Tony Consalvo

President and CEO  
Anthony Clark International Insurance Brokers Ltd.  
June 24, 2011

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June 24, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis may contain forward-looking statements and information. Forward-looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects" and words of similar connotation. Forward-looking statements are subject to various risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, changes in the insurance marketplace, regulations and taxes, restrictive terms and conditions, coverage exclusions and higher prices in every line of insurance. Readers are cautioned not to place undue reliance on these forward-looking statements.*

*The Company does not undertake to update or re-issue the forward-looking statements that may be contained herein, whether as a result of new information, future events or otherwise.*

### OVERVIEW

Anthony Clark International Insurance Brokers Ltd.'s (the "Company") primary business activity involves the operation of general insurance brokerages in Canada and the United States. Shares of the Company trade on the TSX Venture Exchange under the symbol "ACL" and the OTCQX under the symbol "ACKBF". The Company, founded in 1989, has expanded through internal growth and acquisitions. The Company operates in two economic environments and revenues are attributed to geographic areas based on the location of resources producing the revenues.

This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2011. The audited consolidated financial statements for the year ended March 31, 2011 are prepared in accordance with Canadian generally accepted accounting principles. These filings are available at [www.sedar.com](http://www.sedar.com).

All amounts are in Canadian Dollars unless otherwise indicated.

### 2011 HIGHLIGHTS

- **July 2010** – Sale of additional interest in the Canadian operations
- **June 2011** – Voluntary dismissal of the Bankruptcy Adversary Proceeding filed against the Company's subsidiaries in January 2011
- **June 2011** – Sale of Southern California Agency locations with related balance of outstanding debt of U.S. \$5.5 million extinguished
- **EBITDA** – Decreased to \$3,169,052 from \$4,283,586, a decrease of 26%
- **Loss per share** – \$(0.06) per share compared to \$0.43 per share

## SELECTED ANNUAL INFORMATION

The following table summarizes selected annual information prepared in accordance with Canadian generally accepted accounting principles for the three most recently completed financial years:

Years ended March 31,	2011	2010	2009
Revenue	\$ 16,606,708	\$ 18,661,401	\$ 16,867,350
Net earnings (loss)	(551,148)	4,021,083	760,164
Total assets	25,309,668	28,475,672	36,358,502
Total long-term liabilities	14,726,869	25,071,601	34,895,496
Shareholder's equity	(3,305,403)	(2,667,752)	(5,530,294)
Earnings (loss) per share –basic	(0.06)	0.43	0.09
Earnings (loss) per share–fully diluted	(0.06)	0.41	0.09

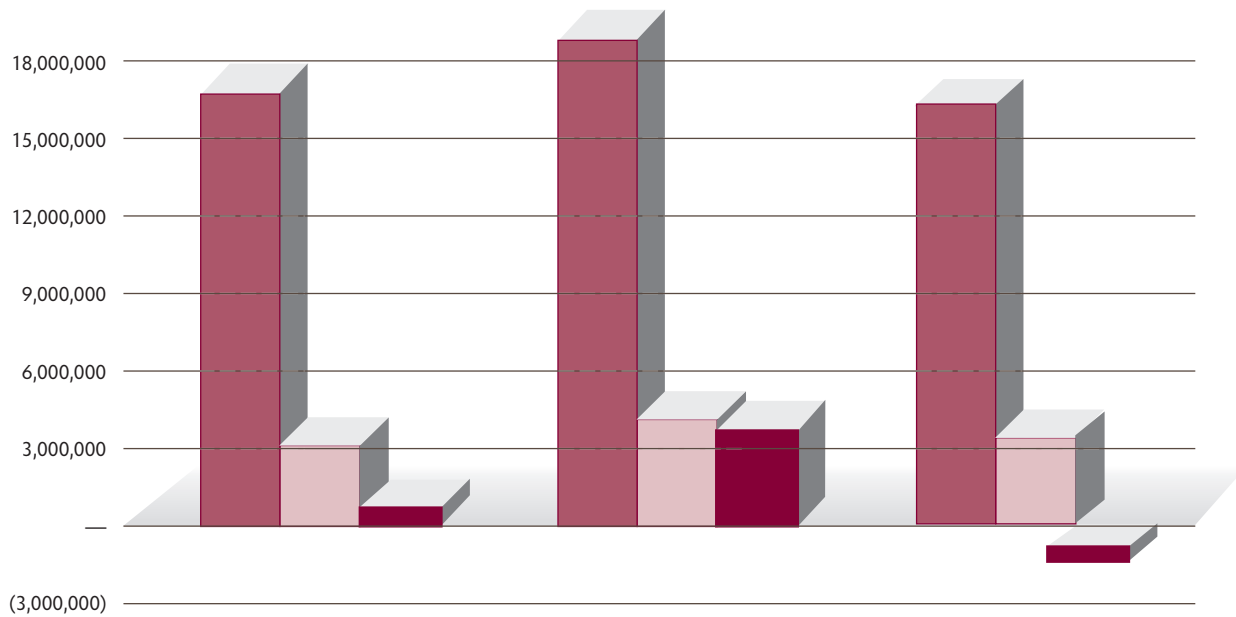
The Company's total assets and long-term liabilities have decreased as at March 31, 2011 compared to March 31, 2010, primarily due to the effect of the decrease in the exchange rate, the reclassification of the U.S. debt of \$8,503,250 to current from long-term, and the write-down of goodwill in one U.S. division. Revenue decreased primarily due to reduced contingent growth incentive income in the Canadian operation, effect of the decrease in the exchange rate and reduced revenue in the U.S.

The net loss for the year ended March 31, 2011 of \$551,148 included \$1,378,145 of net non-cash expenses consisting of amortization of deferred financing costs and loan discounts, future income taxes recovery, depreciation and amortization, stock-based compensation, gain on sale of interest in consolidated subsidiary, loss on disposal of property and equipment, impairment of goodwill, interest on U.S. note payable settled with common shares and non-controlling interest.

The Company's total assets and long-term liabilities have decreased as at March 31, 2010 compared to March 31, 2009, primarily due to the effect of the decrease in the exchange rate, U.S. debt settlement at a discount, and the write-down of goodwill in one U.S. division. Revenue increased primarily due to contingent growth incentive income in the Canadian operation and the full effect of the acquisition of the Calgary based agency in January 2009, partially offset by reduced revenue in the U.S.

The net earnings for the year ended March 31, 2010 of \$4,021,083 included \$2,546,235 of net non-cash income consisting of gain on settlement of debt, amortization of deferred financing costs and loan discounts, future income taxes recovery, impairment of deferred financing costs, interest on U.S. note payable settled with common shares, depreciation and amortization, stock-based compensation, impairment of goodwill, gain on sale of interest in consolidated subsidiary and non-controlling interest.

**ACL – Three Year Summary  
Revenue, EBITDA & Net Earnings (Loss)**



	2009	2010	2011
Revenue	16,867,350	18,661,401	16,606,708
EBITDA	3,159,718	4,283,586	3,169,052
Net Earnings (loss)	760,164	4,021,083	(551,148)

**RESULTS OF OPERATIONS**

The insurance industry continues to experience a soft market characterized by reduced premium rates. We expect premiums to go up, with the exception of auto insurance in Alberta, Canada, as the Alberta Rate Board announced a 5% premium decrease in basic coverage on autos effective November 1, 2010. The premiums are expected to increase in certain business lines as the industry is affected by continued pressure on underwriting margins, low investment yields and thus low return on capital. We have noticed some premium increases in the property insurance, but the commercial insurance premiums continue to be soft. In Canada, the Company has been able to successfully offset the decrease in premiums with writing more premiums through its marketing efforts and excellent customer service. The Company continues to review and change its marketing strategies in line with the current purchasing trends and focusing its marketing program on the internet; buying internet leads, using Search Engine Marketing (SEM) and Search Engine Optimization (SEO) campaigns. Economic recovery, aided by monetary and fiscal stimulus, has yet to show any significant impact on the economy and jobs and in particular on our clientele base in California. The Private Label Program in Virginia, which started in mid-March 2010, continues to perform to expectation. Management continues to monitor and make changes to the Program as necessary. Management continually monitors the effects of changes in the insurance market and economy on the business and prudently makes adjustments to its strategies and costs to address those changes and remain competitive in the market place.

The Company will continue to look for quality accretive acquisitions, seek capital injection to reduce debt, streamline costs and review divestiture of underperforming assets to increase shareholder value.

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## ACCOUNTING POLICIES

### Future accounting standards

*Business combinations, consolidated financial statements and non-controlling interests*

The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling interest”.

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – “Business Combinations”. This section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard will impact the accounting treatment of future business combinations.

Sections 1601 and 1602 together replace 1600 – “Consolidated Financial Statements”. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27 – “Consolidated and Separate Financial Statements” and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. The adoption of these standards should not have a material impact on the Company’s consolidated financial statements.

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board requires all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies are required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of its 2012 fiscal year when the Company will prepare both the current and comparative financial information using IFRS.

In order to prepare and implement the conversion to IFRS, the Company has developed and implemented an IFRS changeover plan. The Company will continue to monitor new IFRS exposure drafts or standards expected to impact the Company. We have completed substantially all the activities required to change to IFRS. Based on the Company’s analysis of the accounting differences between Canadian GAAP and existing IFRS, the transition to IFRS will not have a significant impact on the financial position of the Company in the year ending 2012.

In general, an entity is required to apply IFRS principles on a retrospective basis; however, certain optional exemptions and certain mandatory exceptions are applicable for first time IFRS adopters. The Company has made its transition choices and policy elections.

The Company has elected not to retrospectively restate business combinations prior to April 1, 2010, its transition date, due to the complexities in obtaining historical valuations and instead intend to apply the IFRS requirements prospectively to any acquisitions completed after April 1, 2010. Any goodwill arising on such

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business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was formed or acquired. The Company has taken the election under IFRS 1 which permits cumulative translation gains and losses to zero in opening retained earnings at its Transition Date of April 1, 2010.

IFRS 2 Share-based payments encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has chosen to apply the exemption under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the transition date of April 1, 2010.

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

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.

There will also be changes to the Company's financial statements to comply with IFRS presentation and disclosures. The draft of the Q1 2012 interim financial statements and note disclosures are currently being refined.

The initial adoption of IFRS will have no significant impact on disclosure controls and procedures, information technology systems or business activities. Appropriate staff training has been completed and will continue as new standards develop.

## **Revenue**

The Company's revenue decreased to \$16,606,708 for the year ending March 31, 2011 from \$18,661,401 for the year ending March 31, 2010, primarily due to a reduction in contingent growth incentive income in the Canadian operation, the effect of the exchange rate decline and reduced commissions in the U.S. partially offset by the increased revenue resulting from the Private Label program in the Virginia locations. Economic conditions, continuing decline in premiums (soft market), and general competition, continued to negatively affect revenue in the U.S. divisions. While property and casualty insurance rates remained soft, we expect premiums to increase as the insurers experience high claim costs and reduced investment income. As the Company's revenue is commissions determined as a percentage of premiums, an increase in premiums will result in higher revenue. Management believes that the impact of the economic downturn in the U.S. (particularly California) will continue in the upcoming fiscal year.

The Company's revenue has increased to \$18,661,401 for the year ended March 31, 2010 from \$16,867,350 for the year ended March 31, 2009, primarily due to the effect of the Canadian acquisition in January 2009 and contingent growth incentive income in the Canadian operation, partially offset by reduced commissions in the U.S. The economic conditions and a continuing decline in premiums (soft market) and general competition negatively affected revenue in the U.S. divisions. The property and casualty insurance rates continue to be soft and while the economic recovery is underway, it is very slow. We have yet to see the full impact of the recovery on the job market and on our clients in particular. We expect premiums to increase as insurers experience

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higher claim costs and reduced investment income. As our revenue is related to premiums, any increase in premiums will translate into higher commission revenue.

### **Expenses**

Salaries and wages have decreased to \$7,952,017 for the year ending March 31, 2011 from \$8,817,594 for the year ending March 31, 2010. The decrease was primarily due to the cost savings resulting from the reduction in the number of employees and commissions paid in the U.S. locations, primarily California, to address the decrease in premiums in the U.S. divisions, the effect of the exchange rate decline and the reduction in management bonus. The Company continuously monitors and proactively aligns its employee levels with the premium volumes and economic conditions.

Salaries and wages decreased to \$8,817,594 for the year ending March 31, 2010 from \$9,039,504 for the year ending March 31, 2009, primarily due to the effect of cost savings resulting from the reduction in the number of employees to address the decrease in premiums in the U.S. divisions, largely offset by the effect of the Canadian acquisition in the last quarter of the 2009 fiscal year. The Company continuously and proactively aligns its employee levels with the premium volumes and economic conditions.

General and administrative increased to \$4,404,840 for the year ending March 31, 2011 from \$4,374,830 for the year ending March 31, 2010, primarily due to costs related to the Private Label Program in Virginia, offset by reduced professional fees in Canada and the effect of the exchange rate decline.

General and administrative expenses increased to \$4,374,830 for the year ending March 31, 2010, from \$3,428,143 for the year ending March 31, 2009, primarily due to the costs related to the Canadian acquisition in January 2009, increased professional fees in the Canadian division, and increased advertising costs related to one U.S. location.

Rent decreased to \$975,978 for the year ending March 31, 2011 from \$1,087,596 for the year ending March 31, 2010, primarily due to the effect of the exchange rate decline and reduced costs in California due to the relocation of one office to less expensive premises and the renegotiation of an existing lease for smaller premises.

Rent decreased marginally to \$1,087,596 for the year ending March 31, 2010 from \$1,135,463 for the year ending March 31, 2009 primarily related to reduced costs in California due to the consolidation of some locations, partially offset by the Calgary-based Canadian acquisition in January 2009.

On April 8, 2010, the Company granted 525,000 options to purchase common shares at a price of \$0.36 per share to certain directors, officers and employees. The options vest over a period of eighteen months from the date of grant and expire on April 1, 2013. The fair value of stock options awarded to directors, officers and employees of \$105,382 is being recorded to stock-based compensation expense and contributed surplus as services are provided and the awards vest.

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## **EARNINGS FROM OPERATIONS BEFORE INTEREST, INCOME TAXES AND DEPRECIATION AND AMORTIZATION (EBITDA)**

The Company's EBITDA decreased to \$3,169,052 for the year ending March 31, 2011 from \$4,283,586 for the year ending March 31, 2010, which represents a decrease of 26%, including stock-based compensation expense (non-cash expense). EBITDA as a percentage of revenue has decreased to 19% for the year ending March 31, 2011 from 23% for the year ending March 31, 2010. The decrease resulted primarily from reduced contingent growth incentive income in the Canadian operation, reduced commissions in the U.S. locations, partially offset by cost savings from the reduction in the number of employees in the U.S. locations, primarily California and increased income resulting from the Private Label Program in Virginia. Management has been focused on maintaining revenue levels in this tougher period of economic uncertainty. The Company's cost base has been significantly reduced so that any increases in revenues will result in higher EBITDA.

The Company's EBITDA increased to \$4,283,586 for the year ended March 31, 2010 from \$3,159,718 for the year ended March 31, 2009, which represents an increase of 35% from the prior year, including stock-based compensation expense (non-cash expense). EBITDA as a percentage of revenue has increased from 18.7% for the year ending March 31, 2009 to 23% for the year ending March 31, 2010. The overall increase resulted from higher revenue due to the Canadian acquisition in January 2009 and contingent growth incentive income in the Canadian operations, lower costs due to a strong focus on cost reductions, and proactively streamlining personnel and other operating costs, partially offset by reduced commissions in the U.S. operations. The management has been focused on maintaining revenue levels in this tougher period of economic uncertainty by more cross-selling, improved sales techniques and retention of quality individuals. The Company's cost base has been significantly reduced so that any increases in revenues will result in higher EBITDA.

EBITDA is discussed and presented here as a non-Generally Accepted Accounting Principles measure because it is management's major performance indicator. EBITDA is reconciled to Net earnings below.

The net loss for the year ended March 31, 2011 of \$551,148 included \$1,378,145 of net non-cash expenses consisting of amortization of deferred financing costs and loan discounts, future income taxes recovery, depreciation and amortization, stock-based compensation, gain on sale of interest in consolidated subsidiary, loss on disposal of property and equipment, impairment of goodwill, interest on U.S. note payable settled with common shares and non-controlling interest.

The net earnings for the year ended March 31, 2010 of \$4,021,083 included \$2,546,235 of net non-cash income consisting of gain on settlement of debt, amortization of deferred financing costs and loan discounts, future income taxes recovery, impairment of deferred financing costs, interest on U.S. note payable settled with common shares, depreciation and amortization, stock-based compensation, impairment of goodwill, gain on sale of interest in consolidated subsidiary and non-controlling interest.

## Reconciliation of EBITDA to Net earnings (loss)

Year ending March 31,	2011	2010
Revenue	\$ 16,606,708	\$ 18,661,401
Earnings before the following (EBITDA)	3,169,052	4,283,586
Gain on sale of interest in consolidated subsidiary	1,421,370	4,519,209
Gain on settlement of debt	–	2,842,237
Goodwill impairment	(631,670)	(2,285,100)
Interest and financing costs	(1,910,998)	(2,129,851)
Depreciation and amortization	(1,351,994)	(1,377,080)
Income taxes (expense) recovery	(621,779)	(943,423)
Non–controlling interest	(625,129)	(888,495)
Net earnings (loss) for the year	\$ (551,148)	\$ 4,021,083

### Non–Controlling Interest in Consolidated Subsidiary

On June 10, 2008, April 23, 2009 and July 14, 2010, the Company closed equity financings under which non–controlling interests in a consolidated subsidiary of the Company which operates the Canadian operations, were sold. The Company recognized gains on these sales.

Under certain terms and conditions of the agreement with the non–controlling shareholder, the Company may be required to repurchase the non–controlling interest. In addition, distributions are paid as and when approved by the Board of Directors of the Canadian subsidiary.

### Goodwill Impairment

Goodwill is not subject to amortization but is subject to an impairment test that is performed at least annually. Upon testing goodwill for impairment, it was determined that there was an impairment of goodwill in one California division due to reduced revenues in the division. The resulting write–off of goodwill was in the amount of \$631,670 (U.S. \$650,000) (2010 – \$2,285,100 (U.S. \$2,250,000)).

The economic conditions, decline in premiums due to a soft market, and general competition have negatively affected revenue in this California division, resulting in the further write–down of goodwill in the year ended March 31, 2011.

Should actual revenue and customer retention decline lower than the current estimated levels, further write–down of goodwill may be required for any additional impairment. There were no additions or other write–offs during the year relating to goodwill.

The impairment of goodwill at year the ending March 31, 2011 was related to the Southern California Agency locations, which was sold subsequent to the year end.

### Gain on Settlement of Debt

On April 23, 2009, an amount of U.S. \$4,000,000 originally advanced by a U.S. senior lender on October 31, 2006 and later assigned, was paid out and settled for U.S. \$1,423,000 with proceeds received from the sale of the additional interest in the consolidated subsidiary. A gain resulting from the extinguishment of the loan at a discount in the amount of U.S. \$2,312,642 (CDN \$2,842,237) was recognized in the year ended March 31, 2010, along with the related unamortized deferred financing costs and accrued interest being written off.

## Interest and Financing Costs

	2011	2010
<b>Canadian Operations</b>		
Interest on long-term debt	\$ 1,007,576	\$ 1,133,965
Amortization of deferred financing costs and loan discount	19,496	51,883
Interest on obligations under capital lease	5,204	9,167
	<u>\$ 1,032,276</u>	<u>\$ 1,195,015</u>
<b>U.S. Operations</b>		
Interest and loan fees on long-term debt	\$ 854,892	\$ 776,013
Amortization of deferred financing costs and loan discount	21,193	17,306
Impairment of deferred financing costs	–	140,131
Interest on obligations under capital lease	2,637	1,386
	<u>878,722</u>	<u>934,836</u>
	<u>\$ 1,910,998</u>	<u>\$ 2,129,851</u>

- Impairment of deferred financing costs relates to the write-off of deferred financing costs related to the U.S. loan.

## Depreciation and Amortization

Depreciation and amortization decreased to \$1,351,994 for the year ending March 31, 2011 from \$1,377,080 for the year ending March 31, 2010, primarily due to the effect of the exchange rate decline and the declining balance method of depreciation.

Depreciation and amortization decreased to \$1,377,080 for the year ending March 31, 2010 from \$1,811,805 for the year ending March 31, 2009, mainly due to the customer accounts related to the June 2007 California acquisition being fully amortized in the first quarter of the fiscal year ended 2009 and no amortization related to franchise fees and non-competition agreements in the current year, partially offset by the amortization of the customer accounts related to the Canadian acquisition and the purchase of independent books of business in the fiscal year ending 2009.

## Private Label Insurance Program

The Company through its various partners in the U.S. has formed a Private Label Program to process some of the premium volume in the Virginia operations. The program started in March 2010. The program will result in the Company receiving higher commissions and fees in addition to its normal commissions. The Company continues to monitor and make changes to the product to maximize the program capacity.

## SUMMARY QUARTERLY INFORMATION

The following table summarizes the Company's key consolidated financial information for the last eight quarters.

- EBITDA is defined as Earnings before interest, income taxes, and depreciation and amortization.
- EBITDA is discussed and presented here as a non-Generally Accepted Accounting Principles measure because it is management's major performance indicator. EBITDA is reconciled to Net earnings (loss) above.
- The June 2009 quarter reflects higher net earnings primarily due to the discount on loan and gain on sale of an interest in a consolidated subsidiary.
- The March 2010 quarter net loss reflects the impairment of goodwill for one U.S. division.
- The September 2010 quarter reflects lower revenue due to the reduction in contingent growth incentive income in Canada, reduced commissions in the U.S. and the effect of the exchange rate. The net earnings reflects a gain on sale of an additional interest in a consolidated subsidiary during the quarter.

Quarter ended	Revenue (\$)	EBITDA (\$)	Net earnings (loss) (\$)	EPS – Basic and Diluted (\$/share)
March 31, 2011	4,704,988	1,283,224	(548,689)	(0.06)
December 31, 2010	3,798,663	485,074	(482,840)	(0.05)
September 30, 2010	3,710,501	421,738	741,427	0.08
June 30, 2010	4,392,556	979,016	(261,046)	(0.03)
March 31, 2010	5,260,205	1,640,933	(1,945,681)	(0.20)
December 31, 2009	4,269,106	860,134	(200,376)	(0.02)/(0.04)
September 30, 2009	4,390,676	821,896	89,761	0.01
June 30, 2009	4,741,414	960,623	6,077,379	0.64

### Fourth quarter 2011 results

The net loss for the quarter ending March 31, 2011 reflects an impairment of goodwill related to one U.S. division. Revenue decreased for the quarter ending March 31, 2011 compared to the quarter ending March 31, 2010 primarily due to a reduction in contingent growth incentive income in the Canadian operation, the effect of the exchange rate decline and reduced commissions in the U.S. partially offset by the increased revenue resulting from the Private Label program in the Virginia locations.

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## FINANCIAL CONDITION AND CHANGES IN FINANCIAL CONDITION

Comparing March 31, 2011 and March 31, 2010:

- ✦ **Working capital** decreased \$8,565,029 due mainly to the U.S. senior note and the U.S. note payable reclassified to current.
- ✦ **Customer accounts** decreased \$1,262,402 mainly due to the effect of the exchange rate decrease and amortization.
- ✦ **Goodwill** decreased \$1,083,665 mainly due to the impairment of goodwill in one U.S. division and the effect of the exchange rate decrease.
- ✦ **Long-term debt** decreased \$2,375,635 primarily due to principal repayments on the Canadian loans and the effect of the exchange rate decrease.
- ✦ **Shareholders' equity** decreased \$637,651 primarily due to:
  - o net loss of \$551,148,
  - o decrease in share capital of \$574,669 resulting from the repurchase of shares under the issuer bid,
  - o increase in share capital resulting from the issuance of common stock for settlement of accounts payable of \$128,857,
  - o decrease in accumulated other comprehensive income of \$137,419, and
  - o increase in contributed surplus of \$496,728 related to stock-based compensation and repurchase of shares under the issuer bid.

## FINANCIAL RESOURCES AND LIQUIDITY

At March 31, 2011, the Company had negative working capital of \$8,052,040, obligations under capital leases of \$14,593 and long-term debt of \$14,712,276. The negative working capital position of \$8,052,040 as at March 31, 2011 is primarily due to the U.S. Senior note (\$5,344,900) and the U.S. Note payable (\$3,158,350) reclassified to current at the year end. At March 31, 2010, the Company had working capital of \$512,989, obligations under capital leases of \$23,538 and long-term debt of \$25,048,063.

- (a) On July 14, 2010, the Company closed another equity financing under which an additional interest in the consolidated subsidiary of the Company which operates the Canadian operations, was sold. Part of the proceeds of the sale were applied to pay down the Senior notes.

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) On March 31, 2009, an amendment was made to the U.S. senior note representing U.S. \$10,335,359 originally advanced on June 28, 2007 and later assigned, whereby the outstanding principal balance on the note was adjusted to U.S. \$5,500,000. Certain terms of the loan agreement were amended, including monthly interest only payments at 7% per annum accruing from February 1, 2009 and the due date amended to September 1, 2011 with an extension to April 1, 2012 if mutually agreed to, replacing the previous maturity on June 15, 2022. Should the Company materially default on its obligations, the principal balance due on the senior note will revert to U.S. \$7,500,000 if a material default occurs on or before March 31, 2011.

Subsequent to the year end on June 8, 2011, the Company sold the fixed assets 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 totalling \$5,344,900 for the net sales proceeds and terminated and released the Company from all obligations under the loan agreements.

The following table presents unaudited pro forma balance sheet (extracted) as at March 31, 2011 as if the sale of the Company's fixed assets and customer accounts of its Southern California Agency locations and settlement of U.S. Senior note had occurred as at March 31, 2011. The unaudited pro forma information is not necessarily indicative of the combined results that would have occurred had the sale of its Southern California Agency locations and settlement of the U.S. Senior note taken place at the beginning of the year presented, nor is it necessarily indicative of results that may occur in the future.

	As at March 31, 2011 (unaudited)
Current Assets	\$ 4,953,888
Property and equipment	265,132
Customer Accounts	3,263,376
Goodwill	<u>12,172,466</u>
Total Assets	<u>\$ 20,654,862</u>
Current Liabilities	\$ 7,661,028
Obligations under capital lease	14,593
Long-term debt	14,712,276
Future income taxes	134,264
Non-controlling interest in consolidated subsidiary	748,010
Shareholders' Equity	<u>(2,615,309)</u>
Total Liabilities and Equity	<u>\$ 20,654,862</u>

- (c) The Company finalized an Amending Agreement, effective January 1, 2010, with one of its U.S. lenders, whereby the U.S. lender has agreed to receive a portion of the interest owed to it in common shares of the Company.

Pursuant to the terms of the Amending Agreement, the U.S. lender agreed to accept 4% of the annual interest payments due on a U.S. \$3,250,000 loan (the "Loan") in common shares of the Company, effectively reducing the cash interest payment by U.S. \$130,000 annually. This Amending Agreement is in effect until the maturity of the Loan on April 30, 2012. With the required regulatory approvals received, the Company issued U.S. \$130,000 worth of common shares priced at CDN \$0.50 per common share to the U.S. lender or 272,061 common shares for annual 2010. The price of CDN \$0.50 per common share represented a 2% discount from the closing price of CDN \$0.51 per common share on January 15, 2010. The pricing of the common shares to be issued during the subsequent years of the Loan will be determined at the then current trading price of the common shares of the Company as at the close of business on the first trading day after January 1st in each year until the maturity date of the Loan. The issuance of any common shares of the Company pursuant to the

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Amending Agreement is subject to any and all required regulatory approvals and the acceptance of the TSX Venture Exchange.

The Company issued U.S. \$130,000 worth of common shares priced at \$0.41 per common share or 314,287 common shares for annual 2011.

The Company has entered into discussions with the lender on the U.S. Note payable to refinance the loan. Pending finalization of the discussions, the cash interest payments on the loan are being withheld, beginning with the January 2011 payment. As a result of non-payment, and in accordance with Canadian generally accepted accounting principles ("GAAP"), the U.S. Note payable was reclassified to current.

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

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.

On January 19, 2011, the Company announced that Addison Low Cost Insurance Brokers Ltd. ("Addison Low Cost") and Addison York Insurance Brokers Ltd. ("Addison York"), both subsidiaries of Anthony Clark International Insurance Brokers Ltd., were served with a Bankruptcy Adversary Proceeding Complaint brought by the Trustee for Brooke Corporation et al ("Brooke"), Chapter 7 bankrupt companies, in In re Brooke Corporation Adversary No. 10-06208 pending in the United States Bankruptcy Court For the District of Kansas, Kansas City Division. The claim seeks a return of net commission settlements paid by Brooke to Addison Low Cost (U.S. \$2,979,121.62) and to Addison York (U.S.\$3,223,021.62) on the grounds that the Brooke Trust account, out of which those commissions were paid, may have contained some unknown, undetermined amount of Brooke's money. Therefore, because Brooke claims it may have allegedly commingled some of its money with commission monies belonging to Addison Low Cost, Addison York and hundreds of other agents and insurers, all net commission payments paid to Addison Low Cost and Addison York (and the hundreds of other agents and insurers) should be returned. The Company, based on a review of the Complaint and review by and opinion of its legal counsel, believes there is no legal or factual merit to the claim. The Company will vigorously defend the action and will seek to have it dismissed. Subsequent to the year-end, on June 1, 2011, the Trustee for Brooke Corporation et al ("Brooke"), Chapter 7 bankrupt companies, in In re Brooke Corporation Adversary No. 10-06208, voluntarily dismissed (without prejudice) all pending claims against Addison Low Cost Insurance Brokers Ltd. ("Addison Low Cost") and Addison York Insurance Brokers Ltd. ("Addison York"), both subsidiaries of the Company, from this case.

Shareholders' equity decreased by \$637,651 from \$(2,667,752) as at March 31, 2010 to \$(3,305,403) as at March 31, 2011, mainly due to the net loss of \$551,148, decrease in share capital of \$574,669 resulting from the repurchase of shares under the issuer bid, a decrease in accumulated other comprehensive income of \$137,419, an increase in share capital of \$128,857 resulting from the issuance of common stock for settlement of accounts payable, and an increase in contributed surplus of \$496,728 related to stock-based compensation and repurchase of shares under the issuer bid.

The net loss for the year ended March 31, 2011 of \$551,148 included \$1,378,145 of net non-cash expenses consisting of amortization of deferred financing costs and loan discounts, future income taxes recovery, depreciation and amortization, stock-based compensation, gain on sale of interest in consolidated subsidiary, loss on disposal of property and equipment, impairment of goodwill, interest on U.S. note payable settled with common shares and non-controlling interest.

The following table sets forth the Company's future contractual and long-term obligations as at March 31, 2011:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>3 – 5 Years</b>	<b>More than 5 years</b>
Capital Lease Obligations	\$ 42,249	\$ 27,656	\$ 13,528	\$ 1,065	\$ –
Operating Lease Obligations	2,646,759	1,218,413	532,090	427,720	468,536

<b>Long-Term Debt</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>3 – 5 Years</b>	<b>More than 5 years</b>
Senior notes	16,187,033	1,369,782	3,777,624	4,249,845	6,789,782
U.S. Senior note	5,344,900	5,344,900	–	–	–
U.S. Note payable	3,158,350	3,158,350	–	–	–

## SHARE CAPITAL

### a) Authorized

Unlimited common shares without par value.

Unlimited class B voting preferred shares

Unlimited class C non-voting preferred shares

Changes in share capital during the year ended March 31, 2011 and the year ended March 31, 2010 are as follows:

	Share Capital	
	Shares	Amount
<b>Balance, March 31, 2009</b>	<b>9,524,978</b>	<b>\$ 10,431,189</b>
Common shares issued for settlement of interest on U.S. note payable	272,061	136,031
Common shares issued on exercise of stock options	351,112	105,334
Charge to capital on repurchase of shares through issuer bid	(374,300)	(406,042)
<b>Balance, March 31, 2010</b>	<b>9,773,851</b>	<b>10,266,512</b>
Common shares issued for settlement of interest on U.S. note payable	314,287	128,857
Charge to capital on repurchase of shares through issuer bid	(547,500)	(574,669)
<b>Balance, March 31, 2011</b>	<b>9,540,638</b>	<b>\$ 9,820,700</b>

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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 815,159 of its common shares which represented approximately 10% of the common shares issued and outstanding. The bid commenced May 14, 2009 and terminated on May 13, 2010. The Company repurchased 475,800 common shares under the bid.

The Company received regulatory approval from the TSX Venture Exchange (the “Exchange”) to make another normal course issuer bid. Pursuant to the bid, the Company could purchase up to 967,235 of its common shares which represents approximately 10% of the common shares issued and outstanding. The bid commenced May 14, 2010 and terminated on May 13, 2011. The Company repurchased 446,000 common shares under the bid.

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 954,063 of its common shares which represents approximately 10% of the common shares issued and outstanding. The bid commenced May 19, 2011 and will terminate on May 18, 2012. No purchases have been made under this bid.

The Company finalized an Amending Agreement, effective January 1, 2010, with one of its U.S. lenders, whereby the U.S. lender has agreed to receive a portion of the interest owed to it in common shares of the Company.

Pursuant to the terms of the Amending Agreement, the U.S. lender agreed to accept 4% of the annual interest payments due on a U.S. \$3,250,000 loan (the “Loan”) in common shares of the Company, effectively reducing the cash interest payment by U.S. \$130,000 annually. This Amending Agreement is in effect until the maturity of the Loan on April 30, 2012. With the required regulatory approvals received, the Company issued U.S. \$130,000 worth of common shares priced at CDN \$0.50 per common share to the U.S. lender or 272,061 common shares for annual 2010. The price of CDN \$0.50 per common share represented a 2% discount from the closing price of CDN \$0.51 per common share on January 15, 2010. The pricing of the common shares to be issued during the subsequent years of the Loan will be determined at the then current trading price of the common shares of the Company as at the close of business on the first trading day after January 1st in each year until the maturity date of the Loan. The issuance of any common shares of the Company pursuant to the Amending Agreement is subject to any and all required regulatory approvals and the acceptance of the TSX Venture Exchange.

The Company issued U.S. \$130,000 worth of common shares priced at \$0.41 per common share or 314,287 common shares for annual 2011.

## STOCK-BASED COMPENSATION

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

Changes in stock options during the Years ended March 31, 2011 and 2010 are as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	529,489	\$ 0.33	1,598,000	\$ 0.38
Awarded	525,000	0.36	—	—
Exercised	—	—	(351,112)	(0.30)
Forfeited	(62,500)	(0.36)	—	—
Expired	(541,989)	(0.33)	(717,399)	(0.45)
Outstanding, end of year	450,000	\$ 0.36	529,489	\$ 0.33

The following table sets forth information relating to stock options outstanding as at March 31, 2011:

Expiry	Exercise prices	Number outstanding at March 31, 2011	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at March 31, 2011	Weighted average exercise price
April 1, 2013	\$ 0.36	450,000	2.0	\$ 0.36	225,000	\$ 0.36

On April 8, 2010, the Company granted 525,000 options to purchase common shares at a price of \$0.36 per share to certain directors, officers and employees. The options vest over a period of eighteen months from the date of grant and expire on April 1, 2013. The fair value of stock options awarded to directors, officers and employees of \$105,382 is being recorded to stock-based compensation expense and contributed surplus as services are provided and the awards vest and was estimated on the date of award using the Black-Scholes option pricing model with the assumptions below:

Risk-free interest rate	0.25%
Estimated volatility	93%
Expected lives	2.98 years

The average fair value of stock options awarded as calculated using the Black-Scholes option pricing model, was \$0.20, per stock option.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option pricing models require the use of estimates and assumptions including expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Changes in the underlying assumptions can materially affect these fair value estimates.

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## RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties from time to time in the normal course of business. Related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to between the related parties, unless otherwise noted.

During the year ended March 31, 2011 the Company incurred \$66,295 (2010 – \$76,935) of legal fees with a law partnership in which a partner was also a director until September 6, 2010.

During the year ended March 31, 2011, the Company incurred \$2,720 (2010– \$Nil) of consulting fees charged by a director.

## CAPITAL MANAGEMENT

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

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 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 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.

## FINANCIAL INSTRUMENTS

### a) Categories of Financial Assets and Liabilities

Financial instruments are classified into one of the five following categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Amended CICA section 3862 establishes a fair value hierarchy, for financial instruments measured at fair value, that reflects the significance of inputs used in making fair value measurements as follows:

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

Level 2 – 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 – inputs for the asset or liability that are not based upon observable market data.

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

**b) Fair value**

The fair value of financial instruments at March 31, 2011 and 2010 is summarized in the following table. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

	March 31			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held for trading				
Cash	\$ 1,646,909	\$ 1,646,909	\$ 2,638,036	\$ 2,638,036
Trust cash	246,540	246,540	235,503	235,503
Loans and receivables				
Accounts receivable	2,649,142	2,649,142	2,315,394	2,315,394
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	2,246,435	2,246,435	2,104,318	2,104,318
Distribution payable to non-controlling interest	–	–	952,052	952,052
Obligations under capital leases	42,249	42,249	58,679	58,679
Long-term debt	24,585,308	24,585,308	26,960,943	26,960,943

**c) Financial risk management**

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency 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 and accounts receivable from clients and insurance carriers. Cash is in place with major financial institutions. Concentrations of credit risk with respect to client and carrier accounts receivable are limited due to the large number of customers and carriers. The Company has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

As at March 31, 2011, the Company is exposed to credit risk through the following assets:

Accounts receivable	\$ 2,649,142
Net credit risk	\$ 2,649,142

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### *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, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

Cash	\$	423,320
Accounts receivable		1,318,024
Accounts payable		(956,523)
Payable to parent		(175,000)
Long-term debt		<u>(8,521,960)</u>
Net exposure	\$	<u>(7,912,139)</u>

Based on the above net exposure at March 31, 2011, 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 \$791,214 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 meets liquidity requirements by managing cash flows, refinancing debt and being in an industry where its assets are fairly reasonably readily convertible into cash in the short-term.

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 accounts payable and accrued liabilities are generally due within 60 days. The current portion of obligations under capital leases and long term debt are due within 12 months.

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## CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are both very important to the portrayal of the Company's financial condition and results, and require management's most difficult, subjective or complex judgments. We are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon available information, historical information and/or forecasts. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from these estimates. The accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include those relating to business acquisitions and accounting for the resulting customer accounts, goodwill and non-competition agreements, stock-based compensation, and income taxes.

### **Impairment of long-lived assets**

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

### **Business combinations**

Business acquisitions are accounted for using the purchase method whereby the fair value of consideration given is allocated to identifiable assets acquired and liabilities assumed. The results of operations and cash flows of an acquired business are included in the Company's financial statements from the date of acquisition. Where the consideration given is subject to contingent adjustment based on future periods' operating results, such adjustment is recognized in the period the contingency is resolved.

### **Customer accounts**

Acquired customer accounts are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over estimated useful lives of the acquired customer accounts currently ranging between three and seventeen years. The carrying value of customer accounts is periodically assessed for impairment in accordance with the Company's accounting policy for impairment of long-lived assets.

### **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 not subject to amortization but is subject to an impairment test that is performed at least annually.

### **Stock-based compensation**

Stock-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 stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as services are provided and the awards vest, with offsetting amounts recognized as contributed surplus.

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## **Income taxes**

Income taxes are recorded using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable or receivable for the year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. Future income tax assets are recognized with respect to deductible temporary differences and loss carry-forwards only to the extent their realization is considered more likely than not.

## **RISK FACTORS**

The securities of the Company are highly speculative. A prospective investor or other person reviewing the Company should not consider an investment unless the investor is capable of sustaining an economic loss of the entire investment. Certain risks are associated with the Company's business including the following:

### **Future growth and expansion is dependent on ongoing acquisitions of General Insurance Brokerages**

To a large extent, the Company's growth and expansion plans depend upon the ongoing acquisition of independent General Insurance Brokerages at reasonable prices. There can be no assurance that an adequate number of acquisition candidates will be available to the Company to meet its expansion plans, or in the event that such independent General Insurance Brokerages are available for acquisition that they will be available at a price which would allow the Company to operate on a profitable basis. The Company competes for acquisition and expansion opportunities with entities that have substantially greater resources than the Company and these entities may be able to outbid the Company for acquisition targets. If the Company fails to execute its acquisition strategy, the Company's revenue growth is likely to suffer and the Company may be unable to remain competitive.

### **The Company may be unable to successfully integrate its recent or future acquisitions**

There can be no assurance that the Company's recently acquired brokerages or any brokerages acquired by the Company in the future will achieve acceptable levels of revenue and profitability or otherwise perform as expected. The Company may be unable to successfully integrate other brokerages that the Company may acquire in the future, due to diversion of management attention, strains on the Company's infrastructure, difficulties in integrating operations and personnel, entry into unfamiliar markets, or unanticipated legal liabilities or tax, accounting or other issues. A failure to integrate acquired brokerages may be disruptive to the Company's operations and negatively impact the Company's revenue or increase the Company's expenses.

### **The Company anticipates the need for additional financing, which it may not be successful in arranging**

The Company has relied principally on debt financing to fund its recent acquisitions. The Company will require additional funds to make future acquisitions of General Insurance Brokerages and may require additional funds to market and sell its products into the marketplace. The ability of the Company to arrange such financing in the future, and to repay its existing debt, will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. In addition, the Company is subject to certain financial and other covenants under its financing arrangements. If the Company is unable to or does not comply with these covenants, the Company's financing needs may be accelerated. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, when needed, on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control

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of the Company may change and shareholders may suffer additional dilution. If additional financing is not available on terms favorable to the Company, the Company may be unable to grow or may be required to limit or halt its expansion plans. In addition, the Company's existing creditors, some of whom have security interests in the Company's assets, may exercise their rights to acquire or dispose of the Company's assets.

**Planned future growth is likely to place significant strains on the Company's management, administrative, operational and financial resources**

Since its inception, the Company has experienced steady growth in revenue, number and complexity of products, personnel, and customer base. The Company's planned future growth is likely to place significant strains on the Company's management, administrative, operational and financial resources. Increased growth will require the Company to continue to add additional management personnel, improve its financial and management controls, reporting systems and procedures on a timely basis, to implement new systems as necessary, to expand, train, motivate and manage its sales and other personnel and to service the Company's customers effectively. There can be no assurance that the Company will be able to attract qualified personnel or improve its financial and management controls or implement new systems as necessary and the failure to do so may result in increased costs or a decline in revenue or both.

**The Company's performance and future operating results and success are dependent on the effectiveness of the Company's management team and key personnel**

The Company's performance and future operating results and success are substantially dependent on how effective the management team and key personnel are at organizing and implementing the Company's growth strategy and integrating acquired General Insurance Brokerages into the Company's overall organization. Shareholders will be relying on the judgment and expertise of the management of the Company.

The senior management and some key personnel are employed under employment contracts, while other key personnel of the Company are employed on a month to month basis and are not under an employment contract with the Company. Although the Company is in an industry in which there is not high employee turnover, the unexpected loss or departure of any of the Company's key management personnel, Mr. Tony Consalvo, the President and Chief Executive Officer, Mr. Mahesh Bhatia, the VP Finance and Chief Financial Officer and the Corporate Controller, Ms. Shelley Samec could be detrimental to the future operations of the Company.

There can be no assurance that the Company can retain its key personnel and managerial employees or that it will be able to attract or retain highly qualified personnel in the future. The Company believes that the compensation to its key management personnel is competitive with what other companies pay its key management personnel in the insurance brokerage industry. Although the Company plans to compensate its senior management and other key personnel at compensation levels that are competitive within the industry, there is no assurance that it will continue to be able to do so in the future and this may result in a departure of some of its senior management or other personnel.

The Company maintains keyman life insurance policies of \$100,000 on Mr. Consalvo and \$175,000 on Mr. Bhatia and has no other keyman life insurance on any other senior management or other personnel. The loss of the services of any of the Company's senior management or other key personnel or the inability to attract and retain the necessary technical, sales and managerial personnel could have a material adverse effect upon the Company's business, operating results and financial condition.

**The Company faces intense competition in the insurance industry**

The Company is in an industry in which intense competition exists. The Company competes with other General Insurance Brokerages, as well as Insurance Companies that sell insurance directly to consumers and do not pay commissions to agents and brokers. Some competitors have substantially more financial resources

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and other assets available than the Company does and are larger and better established than the Company. Such competitors have existing distribution facilities and channels, customer recognition, customer lists, and greater research and development capabilities and sales marketing staff than does the Company. There can be no assurance that the Company will be able to compete successfully against current and future competitors, or that competitive pressure faced by the Company will not have a material adverse effect on its business, financial condition and results of operation.

#### **Incursion of government, banks or other financial institutions**

The Company is susceptible to an incursion in the general insurance industry by government or banks or other financial institutions. A government takeover of the general insurance business (or parts thereof) could affect the profitability of the Company. In addition, banks with greater financial resources and a larger customer base than the Company may enter (or are currently entering) the general insurance business. While management believes that the Company's representation of a large and diverse number of Insurance Companies will allow it to remain competitive against any such incursion by the banks, there is a possibility that their entrance into this market could affect the profitability of the Company.

#### **The Company cannot accurately forecast commission revenue because commissions depend on premium rates charged by Insurance Companies, which historically have varied and are difficult to predict. Any declines in premiums or reduction in commission rates may adversely impact profitability**

Revenue from commissions fluctuates with premiums charged by insurers, as commissions typically are determined as a percentage of premiums. When premiums decline, the Company experiences downward pressure on revenue and earnings. Historically, property and casualty premiums have been cyclical in nature and have varied widely based on market conditions. Because we cannot determine the timing and extent of premium pricing changes, we cannot accurately forecast our commission revenue, including whether it will significantly decline. If premiums decline or commission rates are reduced, our revenue, earnings and cash flow could decline. In addition, our budgets for future acquisitions, capital expenditures, dividend payments, loan repayments and other expenditures may have to be adjusted to account for unexpected changes in revenue.

#### **Insurance Company contingent commissions and volume overrides are less predictable than normal commissions, which impairs the Company's ability to forecast the amount of such revenue that will be received and may negatively impact our operating results**

A portion of the Company's revenue is derived from contingent commissions and volume overrides. The aggregate of these sources of revenue generally has accounted for approximately 2–6% of our total revenue. Contingent commissions may be paid by an Insurance Company based on the profit it makes on the overall volume of business that we place with it. Volume overrides and contingent commissions are typically calculated in the first or second quarter of the following calendar year by the Insurance Companies and are paid once calculated. Further, we have no control over the process by which Insurance Companies estimate their own loss reserves, which affects our ability to forecast contingent commissions. Because these contingent commissions affect our revenue, any decrease in their payment to us could adversely affect our results of operations. Recently, legal proceedings challenging the appropriateness of revenue sharing arrangements between Insurance Companies and brokerages, including contingent profit and volume override arrangements, have been commenced against certain insurance brokerages. These proceedings allege that such revenue sharing arrangements conflict with a broker's duty to its clients. While we have not been named as a defendant in any such proceeding, and disagree with the underlying premise that these revenue sharing arrangements create a conflict of interest, we could be the subject of a similar action in the future. A finding that such arrangements conflict with a broker's duty to its clients could have a material adverse effect on our revenue and profitability.

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**Proposed tort reform legislation in the United States, if enacted, could decrease demand for liability insurance, thereby reducing commission revenue**

Legislation concerning tort reform is currently being considered in the United States Congress and in several states. Among the provisions being considered for inclusion on such legislation are limitations on damage awards, including punitive damages, and various restrictions applicable to class action lawsuits, including lawsuits asserting professional liability of the kind of which insurance is offered under certain policies we sell. Enactment of these or similar provision by Congress, or by states or countries in which we sell insurance, could result in a reduction in the demand for liability insurance policies or a decrease in policy limits of such policies sold, thereby reducing our commission revenue.

**Privacy legislation may impede the Company's ability to utilize the customer database as a means to generate new sales**

The Company intends to utilize its extensive customer databases for marketing and sales purposes, which it believes would enhance the Company's ability to meet its organic growth targets. However, privacy legislation, such as the Gramm–Leach–Bailey Act and the Health Insurance Portability and Accountability Act of 1996 in the United States and the Personal Information Protection and Electronic Documents Act (PIPEDA) in Canada, as well other regulatory changes, may restrict the Company's ability to utilize personal information that we have collected in the normal course of operations to generate new sales. If the Company becomes subject to new restrictions, or other regulatory restrictions, which we are not aware of, the Company's ability to grow the business may be adversely affected.

**If the Company fails to comply with regulatory requirements for insurance brokerages, the Company may not be able to conduct business**

The Company is subject to legal requirements and governmental regulatory supervision in the jurisdictions in which it operates. These requirements are designed to protect our clients by establishing minimum standards of conduct particularly regarding the provision of advice and product information as well as financial criteria.

Our activities in the United States and Canada are subject to regulation and supervision by state and provincial authorities. Although the scope of regulation and form of supervision by state and provincial authorities may vary from jurisdiction to jurisdiction, insurance laws in the United States and Canada are often complex and generally grant broad discretion to supervisory authorities in adopting regulations and supervising regulated activities. This supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling and investment of client funds held in fiduciary capacity. Our ability to conduct our business in the jurisdictions in which we currently operate depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions.

Our clients have the right to file complaints with the regulators about our services, and the regulators may investigate and require us to address these complaints. Our failure to satisfy the regulators that we are in compliance with their requirements or the legal requirements governing our activities can result in a disciplinary action, fines, reputation damage and financial harm.

In addition, changes in legislation or regulation and actions by regulators, including changes in administration and enforcement policies, could from time to time require operational improvements or modifications at various locations which could result in higher costs or hinder our ability to operate our business.

**The Company's success is dependent on its ability to represent quality Insurance Companies**

The Company's success is dependent upon its continued representation of quality Insurance Companies in order to sell insurance policies to customers. The Company's existing brokerage contracts with certain

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Insurance Companies do not have a set term or expiry date but may be terminated by either the Company or the Insurance Company on between 90–120 days' written notice of termination depending on the terms of the specific contract. In the event of termination on any of its contracts with Insurance Companies, there are no penalties to the Company but following termination, the Company is no longer able to represent the applicable Insurance Company as agent on the future placement or renewal of insurance policies. If the Company loses Insurance Company representation then this will have a negative impact on its ability to service its customers and provide alternative competitive insurance products.

### **Dilution and sales of additional Common Shares and the exercise of options**

The number of outstanding Common Shares held by shareholders who are not affiliates of the Company and the number of Common Shares underlying outstanding stock options is large relative to the trading volume of the Company's Common Shares. Any substantial sale of the Common Shares, including Common Shares underlying stock options, or even the possibility of such sales occurring may have an adverse effect on the market price of the Common Shares.

### **The Company has significant costs and lower productivity could result in operating losses**

Fixed costs including costs associated with salaries and employee benefits, depreciation and amortization, rent, and interest and financing costs account for a significant portion of the Company's costs and expenses. As a result, downtime or low productivity from its sales representatives, lower demand for insurance products, loss of the Company's customers, any significant decrease in the premium rates, volume and commission paid in the different segments of the general insurance industry, or other factors could result in operating losses and adversely impact on the Company.

### **No intention to declare dividends**

The Company has a recent history of losses and has not declared or paid any cash dividends on its Common Shares. The Company currently intends to retain any future earnings to fund growth and operations and it is unlikely to pay any dividends in the immediate or foreseeable future. Any decision to pay dividends on its Common Shares in the future will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions at such time.

### **Conflicts of directors and officers who serve as directors or officers or are significant shareholders of other companies**

Directors and officers of the Company may serve as directors or officers of, or have significant shareholdings in other companies, or be or become engaged in business and activities in other fields, on their own behalf and on the behalf of other companies and entities. To the extent that such other companies or entities may participate in industries or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest. Conflicts, if any, will be subject to the procedures and remedies under the Business Companies Act (Alberta).

### **Investors may not be able to secure foreign enforcement of civil liabilities against the Company's management**

The enforcement by investors of civil liabilities under the federal securities laws of the United States may be adversely affected by the fact that the Company is amalgamated under the laws of Canada, that all of its officers and directors are residents of a foreign country and a substantial portion of its assets and such person's assets are located outside of the United States. As a result, it may be difficult for holders of the Common Shares to effect service of process on such persons within the United States or to realize in the United States upon judgments rendered against them.

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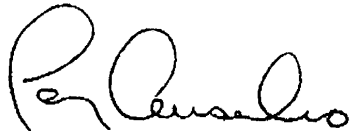
## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Anthony Clark International Insurance Brokers Ltd. and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and in accordance with Canadian generally accepted accounting principles. Where necessary, estimates of transactions that were incomplete at the year end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining appropriate systems of internal control. Assets are safeguarded from loss or unauthorized use through established policies and procedures that reasonably ensure that transactions are appropriately approved.

D&H Group LLP, the Company's external auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This committee, comprised of directors who are not employees of the Company, meets with management and the external auditors to satisfy itself that management's responsibilities have been properly discharged and to review the consolidated financial statements before they are presented to the Board for approval. These financial statements have been approved by the Board on the recommendation of the Audit Committee.



Tony Consalvo

President and Chief Executive Officer



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# INDEPENDENT AUDITORS' 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 March 31, 2011 and 2010, and the consolidated statements of operations and comprehensive (loss) income, statements of shareholders' equity and statements of cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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 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, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.

June 20, 2011

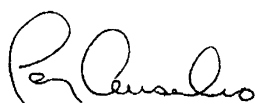


Chartered Accountants

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**Anthony Clark International Insurance Brokers Ltd.****CONSOLIDATED BALANCE SHEETS**March 31, 2011 and 2010 *(Expressed in Canadian dollars)*

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,646,909	\$ 2,638,036
Accounts receivable	2,649,142	2,315,394
Trust cash	246,540	235,503
Prepaid expenses	411,297	504,185
	4,953,888	5,693,118
Property and equipment <i>(Note 3)</i>	378,193	458,900
Customer accounts <i>(Note 4)</i>	3,263,376	4,525,778
Goodwill <i>(Note 5)</i>	16,714,211	17,797,876
	\$ 25,309,668	\$ 28,475,672
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,246,435	\$ 2,104,318
Deferred revenue	620,000	–
Distribution payable to non–controlling interest	–	952,052
Income taxes payable	238,805	175,738
Current portion of long–term debt <i>(Note 6)</i>	9,873,032	1,912,880
Current portion of obligations under capital leases <i>(Note 7)</i>	27,656	35,141
	13,005,928	5,180,129
Long–term debt <i>(Note 6)</i>	14,712,276	25,048,063
Obligations under capital leases <i>(Note 7)</i>	14,593	23,538
Future income taxes <i>(Note 15)</i>	134,264	235,859
	27,867,061	30,487,589
Non–controlling interest in consolidated subsidiary <i>(Note 8)</i>	748,010	655,835
Commitments <i>(Note 16)</i>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>(Note 10)</i>	9,820,700	10,266,512
Accumulated other comprehensive income (loss)	(1,351,737)	(1,214,318)
Contributed surplus	2,498,163	2,001,435
Deficit	(14,272,529)	(13,721,381)
	(3,305,403)	(2,667,752)
	\$ 25,309,668	\$ 28,475,672

NATURE OF OPERATIONS *(Note 1)*SUBSEQUENT EVENTS *(Note 21)**See accompanying notes to the consolidated financial statements.*

Approved by the Board

Tony Consalvo, Director



Rob Sadleir, Director

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Anthony Clark International Insurance Brokers Ltd.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years ended March 31, 2011 and 2010 (Expressed in Canadian dollars)

	2011	2010
<b>REVENUE</b>	\$ 16,606,708	\$ 18,661,401
<b>EXPENSES</b>		
Salaries and wages	7,952,017	8,817,594
General and administrative	4,404,840	4,374,830
Rent	975,978	1,087,596
Stock-based compensation (Note 11)	104,821	97,795
	13,437,656	14,377,815
Earnings before interest, income taxes, depreciation and amortization and other	3,169,052	4,283,586
Gain on sale of interest in consolidated subsidiary (Note 8)	1,421,370	4,519,209
Gain on settlement of debt (Note 9)	–	2,842,237
Goodwill impairment (Note 5)	(631,670)	(2,285,100)
Interest and financing costs (Note 17)	(1,910,998)	(2,129,851)
Depreciation and amortization	(1,351,994)	(1,377,080)
Earnings before income taxes	695,760	5,853,001
<b>INCOME TAXES</b> (Note 15)		
Current – (expense)	(723,374)	(1,019,831)
Future – recovery	101,595	76,408
	(621,779)	(943,423)
Non-controlling interest	(625,129)	(888,495)
Net (loss) earnings for the year	(551,148)	4,021,083
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrecognized gain (loss) on translation of financial statements of self-sustaining foreign operations	(137,419)	(1,326,415)
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ (688,567)	\$ 2,694,668
Earnings per share – basic	\$ (0.06)	\$ 0.43
Earnings per share – diluted	\$ (0.06)	\$ 0.41

See accompanying notes to the consolidated financial statements.

**Anthony Clark International Insurance Brokers Ltd.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

Years ended March 31, 2011 and 2010 (Expressed in Canadian dollars)

	Share capital		Accumulated other comprehensive income (loss)	Contributed surplus	Deficit
	Shares	Amount			
Balance, March 31, 2009	9,524,978	\$ 10,431,189	\$ 112,097	\$ 1,668,884	\$ (17,742,464)
Stock-based compensation	—	—	—	97,795	—
Common shares issued for:					
Settlement of interest on					
U.S. note payable	272,061	136,031	—	—	—
Exercise of stock options	351,112	105,334	—	—	—
Excess of share stated amount over share redemption amount	—	—	—	234,756	—
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	—	—	(1,326,415)	—	—
Net earnings for the year	—	—	—	—	4,021,083
Charge to capital on repurchase of shares through issuer bid	(374,300)	(406,042)	—	—	—
Balance, March 31, 2010	9,773,851	10,266,512	(1,214,318)	2,001,435	(13,721,381)
Stock-based compensation	—	—	—	104,821	—
Common shares issued for:					
Settlement of interest on U.S. note payable	314,287	128,857	—	—	—
Excess of share stated amount over share redemption amount	—	—	—	391,907	—
Unrealized gain (loss) on translation of financial statements of self-sustaining foreign operations	—	—	(137,419)	—	—
Net loss earnings for the year	—	—	—	—	(551,148)
Charge to capital on repurchase of shares through issuer bid	(547,500)	(574,669)	—	—	—
Balance, March 31, 2011	9,540,638	\$ 9,820,700	\$ (1,351,737)	\$ 2,498,163	\$ (14,272,529)

See accompanying notes to the consolidated financial statements.

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**Anthony Clark International Insurance Brokers Ltd.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended March 31, 2011 and 2010 (Expressed in Canadian dollars)

	2011	2010
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net (loss) earnings for the year	\$ (551,148)	\$ 4,021,083
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	1,351,994	1,377,080
Loss on disposal of property and equipment	14,698	–
Future income taxes (recovery)	(101,595)	(76,408)
Amortization of deferred financing costs and loan discounts	40,689	69,189
Impairment of deferred financing costs	–	140,131
Interest on U.S. note payable settled with common shares	132,109	33,829
Stock-based compensation	104,821	97,795
Non-controlling interest	625,129	888,495
Gain on sale of interest in consolidated subsidiary	(1,421,370)	(4,519,209)
Impairment of goodwill	631,670	2,285,100
Gain on settlement of debt	–	(2,842,237)
	826,997	1,474,848
Changes in non-cash working capital accounts		
Accounts receivable	(368,388)	495,555
Prepaid expenses	78,857	(148,061)
Accounts payable and accrued liabilities	147,839	(1,049,977)
Deferred revenue	620,000	–
Income taxes	63,067	354,927
	1,368,372	1,127,292
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Proceeds on issue of common shares	–	105,334
Repayments on long-term debt	(2,237,266)	(4,657,860)
Proceeds from long-term debt	174,096	1,251,111
Repurchase of shares under issuer bid	(182,762)	(171,231)
Distribution to non-controlling interest	(1,627,758)	(113,221)
	(3,873,690)	(3,585,867)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Additions to property and equipment	(37,406)	(77,784)
Proceeds on sale of an interest in a consolidated subsidiary	1,564,122	2,397,330
	1,526,716	2,319,546
<b>EFFECT OF FOREIGN EXCHANGE</b>	(12,525)	(97,988)
<b>DECREASE IN CASH DURING THE YEAR</b>	(991,127)	(237,017)
<b>CASH</b> , beginning of year	2,638,036	2,875,053
<b>CASH</b> , end of year	\$ 1,646,909	\$ 2,638,036

See Note 19.

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010 (Expressed in Canadian dollars)

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### 1. NATURE OF OPERATIONS

Anthony Clark International Insurance Brokers Ltd. (the “Company”), through its various subsidiaries, operates general insurance brokerages in Canada and the United States. Shares of the Company trade on the TSX Venture Exchange under the symbol “ACL” and the OTCQX under the symbol “ACKBF”. Revenues are attributed to geographic areas based on the location of resources producing the revenues.

As at March 31, 2011, the U.S. Senior note (\$5,344,900) was reclassified to current due to the maturity terms of the note. In addition, the U.S. Note Payable (\$3,158,350), was reclassified to current at the year end in accordance with Canadian generally accepted accounting principles (“GAAP”), resulting from the cash interest payments on the loan being withheld, beginning with the January 2011 payment. The Company has entered into discussions with the lender on the U.S. Note payable to refinance the loan. The reclassification of the U.S. Senior note and U.S. Note Payable has resulted in negative working capital of \$8,052,040 at the year end.

Subsequent to the year end, the sale of the Company’s Southern California operations resulted in the retirement of all outstanding principal and interest obligations on the U.S. Senior note as per the agreement with the lender. See Notes 6 and 21.

### 2. ACCOUNTING POLICIES

#### *Basis of presentation*

These consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

#### *Use of estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions.

Significant estimates used in the preparation of these financial statements include the collectability of accounts receivable, the allocation of the purchase price on business acquisitions, the valuation of reporting units when testing the recoverability of goodwill, the estimated useful lives of property and equipment and customer accounts, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities and the fair value of stock-based compensation.

Management’s best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends, and management’s assessment of probable future outcomes of these matters. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period.

#### *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 reasonably assured. Funds received in respect of revenue not yet earned is 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.

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### *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 are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the property and equipment using the following annual rates and methods:

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

### *Impairment of long–lived assets*

Long–lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long–lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long–lived asset exceeds its fair value is charged to earnings.

### *Business combinations*

Business acquisitions are accounted for using the purchase method whereby the fair value of consideration given is allocated to identifiable assets acquired and liabilities assumed. The results of operations and cash flows of an acquired business are included in the Company's financial statements from the date of acquisition. Where the consideration given is subject to contingent adjustment based on future periods' operating results, such adjustment is recognized in the period the contingency is resolved.

### *Customer accounts*

Acquired customer accounts are carried at cost less accumulated amortization. Amortization is provided on a straight–line basis over estimated useful lives of the acquired customer accounts currently ranging between three and seventeen years. The carrying value of customer accounts is periodically assessed for impairment in accordance with the Company's accounting policy for impairment of long–lived assets.

### *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 not subject to amortization but is subject to an impairment test that is performed at least annually.

### *Deferred financing costs and debt discounts*

Deferred financing costs and debt discounts are amortized over the term of the related indebtedness using the effective interest rate method. If the related debt becomes due on demand or is settled earlier, the related balance of unamortized deferred financing costs and debt discounts are charged to earnings.

### *Foreign currency translation*

The Company uses the current rate method under which the assets and liabilities of self–sustaining foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using rates approximating the exchange rate at the transaction date. Foreign currency translation gains and losses are shown as a separate component of shareholders' equity.

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### ***Earnings (loss) per share***

Earnings (loss) per share is determined using the weighted average number of common shares outstanding during the year, which amounted to 9,548,930 (2010 – 9,453,728) common shares. Diluted earnings (loss) per share is calculated using the treasury stock method, which assumes proceeds from the exercise of stock options and warrants would be used to purchase common shares at the average market price for the year.

### ***Stock-based compensation***

Stock-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 stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as services are provided and the awards vest, with offsetting amounts recognized as contributed surplus.

### ***Income taxes***

Income taxes are recorded using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable or receivable for the year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

### ***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 are classified as either held for trading, held to maturity, loans and receivables or available for sale and financial liabilities as either held for trading or as other financial liabilities. Upon initial recognition, ordinarily all financial instruments are recognized at fair value. Subsequently, financial assets classified as held to maturity and as loans and receivables, and other financial liabilities, are accounted for at amortized cost. Financial assets and financial liabilities classified as held for trading are accounted for at fair value with unrealized holding gains and losses included in net income each period. Available for sale financial assets are also accounted for at fair value, however unrealized holding gains and losses on these instruments are included in the statement of operations and comprehensive income as other comprehensive income and on the balance sheet as a separate component of shareholders' equity titled accumulated other comprehensive income.

### ***Future accounting standards***

#### ***Business combinations, consolidated financial statements and non-controlling interests***

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling interest".

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – "Business Combinations". This section applies prospectively to business combinations for which

the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard will impact the accounting treatment of future business combinations.

Sections 1601 and 1602 together replace 1600 – “Consolidated Financial Statements”. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27 – “Consolidated and Separate Financial Statements” and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. The adoption of these standards should not have a material impact on the Company’s consolidated financial statements.

### 3. PROPERTY AND EQUIPMENT

	2011		
	Cost	Accumulated depreciation	Net
Computer equipment and software	\$ 443,623	\$ 275,692	\$ 167,931
Furniture and equipment	395,903	185,641	210,262
Leasehold improvements	54,491	54,491	–
	<u>\$ 894,017</u>	<u>\$ 515,824</u>	<u>\$ 378,193</u>

	2010		
	Cost	Accumulated depreciation	Net
Computer equipment and software	\$ 690,274	\$ 435,726	\$ 254,548
Furniture and equipment	592,284	387,932	204,352
Leasehold improvements	56,293	56,293	–
	<u>\$ 1,338,851</u>	<u>\$ 879,951</u>	<u>\$ 458,900</u>

Included in property and equipment are assets under capital lease with a cost of \$80,839 (2010 – \$121,272) and accumulated depreciation of \$23,414 (2010 – \$44,333).

### 4. CUSTOMER ACCOUNTS

	2011	2010
Cost	\$ 9,626,363	\$ 9,682,844
Accumulated amortization	(6,362,987)	(5,157,066)
	<u>\$ 3,363,376</u>	<u>\$ 4,525,778</u>

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## 5. GOODWILL

Goodwill is not subject to amortization but is subject to an impairment test that is performed at least annually. Upon testing goodwill for impairment, it was determined that there was an impairment of goodwill in one California division due to reduced revenues in the division. The resulting write-off of goodwill was in the amount of \$631,670 (U.S. \$650,000) (2010 – \$2,285,100 (U.S. \$2,250,000)).

The economic conditions, decline in premiums due to a soft market, and general competition have negatively affected revenue in this California division, resulting in the further write-down of goodwill in the year ended March 31, 2011.

Should actual revenue and customer retention decline lower than the current estimated levels, further write-down of goodwill may be required for any additional impairment.

There were no additions or other write-offs during the year relating to goodwill.

See Note 21.

## 6. LONG-TERM DEBT

	2011	2010
Senior notes – 4.5% – 6.75%, due between June 2018 and January 2019 (a)	\$ 16,187,033	\$ 17,964,792
U.S. Senior note – 7% interest only, due September 2011 (b (i))	5,344,900	5,585,800
U.S. Note payable – 14% interest only, due April 2012 (b (ii))	3,158,350	3,300,700
U.S. Note payable – non-interest bearing due August 2010, net of unamortized discount of \$ nil (2010 – \$9,357)	–	24,497
Note payable – 5% due September 2010, net of unamortized discount of \$nil (2010 – \$2,716)	–	44,983
Notes payable – without interest due between July 2010 and October 2010, net of unamortized discount of \$ nil (2010 – \$3,915)	–	170,181
	24,690,283	27,090,953
Deferred financing costs	(185,665)	(304,036)
Accumulated amortization	80,690	58,227
Impairment of deferred financing costs	–	115,799
	(104,975)	(130,010)
	24,585,308	26,960,943
Current portion	(9,873,032)	(1,912,880)
	\$ 14,712,276	\$ 25,048,063

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- a) On July 14, 2010, the Company closed another equity financing under which an additional interest in the consolidated subsidiary of the Company which operates the Canadian operations, was sold. Part of the proceeds of the sale were applied to pay down the Senior notes.

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) (i) On March 31, 2009, an amendment was made to the U.S. senior note representing U.S. \$10,335,359 originally advanced on June 28, 2007 and later assigned, whereby the outstanding principal balance on the note was adjusted to U.S. \$5,500,000. Certain terms of the loan agreement were amended, including monthly interest only payments at 7% per annum accruing from February 1, 2009 and the due date amended to September 1, 2011 with an extension to April 1, 2012 if mutually agreed to, replacing the previous maturity on June 15, 2022. Should the Company materially default on its obligations, the principal balance due on the senior note will revert to U.S. \$7,500,000 if a material default occurs on or before March 31, 2011. See Note 21.
- (ii) The Company has entered into discussions with the lender to refinance the loan. Pending finalization of the discussions, the cash interest payments on the loan are being withheld, which began with the January 2011 payment. As a result of non payment, and in accordance with GAAP, the U.S. note payable was reclassified to current. Also, see Note 10c.

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 five fiscal years:

2012	\$	9,873,032
2013		1,833,283
2014		1,944,341
2015		2,062,287
2016		2,187,558
Thereafter		6,789,782
	\$	<u>24,690,283</u>

## 7. OBLIGATIONS UNDER CAPITAL LEASES

	2011	2010
Obligations under capital leases, collateralized by the assets under lease	\$ 42,249	\$ 58,679
Current portion	(27,656)	(35,141)
	\$ 14,593	\$ 23,538

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## 8. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARY

On June 10, 2008, April 23, 2009 and July 14, 2010, the Company closed equity financings under which non-controlling interests in a consolidated subsidiary of the Company which operates the Canadian operations, were sold. The Company recognized gains on these sales.

Under certain terms and conditions of the agreement with the non-controlling shareholder, the Company may be required to repurchase the non-controlling interest. In addition, distributions are paid as and when approved by the Board of Directors of the Canadian subsidiary.

## 9. GAIN ON SETTLEMENT OF DEBT

On April 23, 2009, an amount of U.S. \$4,000,000 originally advanced by a U.S. senior lender on October 31, 2006 and later assigned, was paid out and settled for U.S. \$1,423,000 with proceeds received from the sale of the additional interest in the consolidated subsidiary. A gain resulting from the extinguishment of the loan at a discount in the amount of U.S. \$2,312,642 (CDN \$2,842,237) was recognized in the year ended March 31, 2010, along with the related unamortized deferred financing costs and accrued interest being written off.

## 10. SHARE CAPITAL

- a) Authorized
  - Unlimited common shares without par value
  - Unlimited class B voting preferred shares
  - Unlimited class C non-voting preferred shares
  
- b) 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 815,159 of its common shares which represented approximately 10% of the common shares issued and outstanding. The bid commenced May 14, 2009 and terminated on May 13, 2010. The Company repurchased 475,800 common shares under the bid.

The Company received regulatory approval from the TSX Venture Exchange (the "Exchange") to make another normal course issuer bid. Pursuant to the bid, the Company could purchase up to 967,235 of its common shares which represents approximately 10% of the common shares issued and outstanding. The bid commenced May 14, 2010 and terminated on May 13, 2011. The Company repurchased 446,000 common shares under the bid.
  
- c) The Company finalized an Amending Agreement, effective January 1, 2010, with one of its U.S. lenders, whereby the U.S. lender has agreed to receive a portion of the interest owed to it in common shares of the Company.

Pursuant to the terms of the Amending Agreement, the U.S. lender agreed to accept 4% of the annual interest payments due on a U.S. \$3,250,000 loan (the "Loan") in common shares of the Company, effectively reducing the cash interest payment by U.S. \$130,000 annually. This Amending Agreement is in effect until the maturity of the Loan on April 30, 2012. With the required regulatory approvals received, the Company issued U.S. \$130,000 worth of common shares priced at CDN \$0.50 per common share to the U.S. lender or 272,061 common shares for annual 2010. The price of CDN \$0.50 per common share represented a 2% discount from the closing price of CDN \$0.51 per common share on January 15, 2010. The pricing of the common shares to be issued during the subsequent years of the Loan will be determined at the then current trading price of the common shares of the Company as at the close of business on the first trading day after January 1st in each year until the maturity

date of the Loan. The issuance of any common shares of the Company pursuant to the Amending Agreement is subject to any and all required regulatory approvals and the acceptance of the TSX Venture Exchange.

The Company issued U.S. \$130,000 worth of common shares priced at \$0.41 per common share or 314,287 common shares for annual 2011.

## 11. STOCK-BASED COMPENSATION

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

Changes in stock options during the years ended March 31, 2011 and 2010 are as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	529,489	\$ 0.33	1,598,000	\$ 0.38
Awarded	525,000	0.36	–	–
Exercised	–	–	(351,112)	(0.30)
Forfeited	(62,500)	(0.36)	–	–
Expired	(541,989)	(0.33)	(717,399)	(0.45)
Outstanding, end of year	450,000	\$ 0.36	529,489	\$ 0.33

The following table sets forth information relating to stock options outstanding as at March 31, 2011:

Expiry	Exercise price	Number outstanding at March 31, 2011	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at March 31, 2011	Weighted average exercise price
April 1, 2013	\$ 0.36	450,000	2.0	\$ 0.36	225,000	\$ 0.36

On April 8, 2010, the Company granted 525,000 options to purchase common shares at a price of \$0.36 per share to certain directors, officers and employees. The options vest over a period of eighteen months from the date of grant and expire on April 1, 2013. The fair value of stock options awarded to directors, officers and employees of \$105,382 is being recorded to stock-based compensation expense and contributed surplus as services are provided and the awards vest and was estimated on the date of award using the Black-Scholes option pricing model with the assumptions below:

Risk-free interest rate	0.25%
Estimated volatility	93%
Expected lives	2.98 years

The average fair value of stock options awarded as calculated using the Black-Scholes option pricing model, was \$0.20, per stock option.

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The Black–Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option pricing models require the use of estimates and assumptions including expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Changes in the underlying assumptions can materially affect these fair value estimates.

## **12. RELATED PARTY TRANSACTIONS**

The Company enters into transactions with related parties from time to time in the normal course of business. Related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to between the related parties, unless otherwise noted.

During the year ended March 31, 2011 the Company incurred \$66,295 (2010 – \$76,935) of legal fees with a law partnership in which a partner was also a director until September 6, 2010.

During the year ended March 31, 2011, the Company incurred \$2,720 (2010 – \$ Nil) of consulting fees charged by a director.

## **13. CAPITAL MANAGEMENT**

The Company considers the capital it manages to be the amounts it has in cash, debt (long–term and short–term borrowings) and shareholders' equity.

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 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.

Refer to Notes 6 and 10 for description of changes in capital for the 2011 and 2010 fiscal years.

## 14. FINANCIAL INSTRUMENTS

### a) *Categories of financial assets and liabilities*

Financial instruments are classified into one of the five following categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

Amended CICA section 3862 establishes a fair value hierarchy, for financial instruments measured at fair value, that reflects the significance of inputs used in making fair value measurements as follows:

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

Level 2 – 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 – inputs for the asset or liability that are not based upon observable market data.

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

### b) *Fair value*

The fair value of financial instruments at March 31, 2011 and 2010 is summarized in the following table. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

	March 31,			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held for trading				
Cash	\$ 1,646,909	\$ 1,646,909	\$ 2,638,036	\$ 2,638,036
Trust cash	246,540	246,540	235,503	235,503
Loans and receivables				
Accounts receivable	2,649,142	2,649,142	2,315,394	2,315,394
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	2,246,435	2,246,435	2,104,318	2,104,318
Distribution payable to non-controlling interest	–	–	952,052	952,052
Obligations under capital leases	42,249	42,249	58,679	58,679
Long-term debt	24,585,308	24,585,308	26,960,943	26,960,943

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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 and accounts receivable from clients and insurance carriers. Cash is in place with major financial institutions. Concentrations of credit risk with respect to client and carrier accounts receivable are limited due to the large number of customers and carriers. The Company has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

As at March 31, 2011, the Company is exposed to credit risk through the following assets:

Accounts receivable	\$	<u>2,649,142</u>
Net credit risk	\$	<u>2,649,142</u>

*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, 2011, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

Cash	\$	423,320
Accounts receivable		1,318,024
Accounts payable		(956,523)
Payable to parent		(175,000)
Long-term debt		<u>(8,521,960)</u>
Net exposure	\$	<u>(7,912,139)</u>

Based on the above net exposure at March 31, 2011, 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 \$791,214 in the Company's other comprehensive income (loss).

*Interest rate risk*

All of the Company's indebtedness bear 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 meets liquidity requirements

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by managing cash flows, refinancing debt and being in an industry where its assets are fairly reasonably readily convertible into cash in the short-term.

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 accounts payable and accrued liabilities are generally due within 60 days. The current portion of obligations under capital leases and long term debt are due within 12 months.

See Note 1.

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## 15. INCOME TAXES

Income tax expense or recovery is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of its future income tax assets and liabilities.

The provision for income tax differs from the result which would have been obtained by applying the statutory income tax rate of 27.63% (2010 – 28.75%) to the Company's net income (loss) before income taxes. The difference results from the following items:

	2011	2010
Expected income tax expense	\$ 192,238	\$ 1,682,738
Sale of non–controlling interest in consolidated subsidiary	(189,480)	(603,811)
Non–deductible stock–based compensation	28,962	28,116
Effect of foreign income tax rate differences	82,871	75,066
Rate changes during the year	(662,481)	–
Other comprehensive income adjustment for foreign exchange	(245,214)	(1,282,158)
Valuation allowance	1,178,123	1,163,487
Non deductible interest payments	36,504	–
Other	200,256	(120,015)
	\$ 621,779	\$ 943,423

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	2011	2010
<b>Future income tax assets</b>		
Customer accounts, with tax basis	\$ 965,516	\$ 922,816
Other assets	2,556,834	2,189,373
Non capital losses	3,478,614	2,587,494
Valuation allowance	(6,863,958)	(5,685,835)
	137,006	13,848
<b>Future income tax liabilities</b>		
Goodwill	(136,987)	(33,418)
Customer accounts, without tax basis	(134,283)	(216,289)
	(271,270)	(249,707)
<b>Net future income tax liability</b>	\$ (134,264)	\$ (235,859)

As at March 31, 2011, the Company had accumulated Canadian non–capital losses of approximately \$936,000 which expire in 2031 and U.S. net operating losses of approximately U.S. \$8,450,000 which can be carried forward and charged against future taxable income, with some restriction. A valuation allowance has been provided for these future income tax assets as there is no reasonable assurance the potential benefit of these losses will be realized. These losses expire principally in 2024 through 2031.

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## 16. COMMITMENTS

The Company leases office premises under operating leases that expire at various dates during the 2012 through 2019 fiscal years. In addition, the Company has current obligations under certain advertising contracts. Subsequent to the year end, the Company entered into a lease for office premises that includes a commitment for \$364,250 for leasehold improvements to be amortized over five years. The Company's minimum lease and other payments under the agreements are as follows:

2012	\$	1,218,413
2013		309,031
2014		223,059
2015		213,860
2016		213,860
And thereafter		468,536
	\$	<u>2,646,759</u>

## 17. INTEREST AND FINANCING COSTS

	2011	2010
<b>Canadian Operations</b>		
Interest on long-term debt	\$ 1,007,576	\$ 1,133,965
Amortization of deferred financing costs and loan discount	19,496	51,883
Interest on obligations under capital lease	5,204	9,167
	<u>1,032,276</u>	<u>1,195,015</u>
<b>U.S. Operations</b>		
Interest on long-term debt	854,892	776,013
Amortization of deferred financing costs and loan discount	21,193	17,306
Impairment of deferred financing costs	–	140,131
Interest on obligations under capital lease	2,637	1,386
	<u>878,722</u>	<u>934,836</u>
	\$ 1,910,998	\$ 2,129,851

Impairment of deferred financing costs relates to the write-off of deferred financing costs related to the U.S. loan.

## 18. SEGMENT DISCLOSURES

The Company operates in two geographic regions, Canada and the United States. There were no inter-segment transactions during the reporting periods:

Operating Segments	Year ended March 31, 2011			Year ended March 31, 2010		
	Canada	U.S.	Consolidated	Canada	U.S.	Consolidated
Revenue	\$ 9,308,868	\$ 7,297,840	\$ 16,606,708	\$ 10,422,600	\$ 8,238,801	\$ 18,661,401
Net (loss) earnings	770,584	(1,321,732)	(551,148)	3,993,312	27,771	4,021,083
Depreciation and amortization	1,138,536	213,458	1,351,994	1,143,768	233,312	1,377,080
Interest and financing costs	1,032,276	878,722	1,910,998	1,195,015	934,836	2,129,851
Identifiable assets	13,093,746	12,215,922	25,309,668	15,024,474	13,451,198	28,475,672
Property and equipment and intangibles	3,050,077	591,492	3,641,569	4,183,514	801,164	4,984,678
Goodwill	7,317,360	9,396,851	16,714,211	7,317,360	10,480,516	17,797,876

## 19. SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended March 31, 2011 and 2010, the Company paid interest of \$1,609,014 and \$2,147,396 respectively, and paid income taxes of \$1,052,494 and \$805,033, respectively.

During the years ended March 31, 2011 and 2010, the Company had non-cash transactions as follows:

	2011	2010
Operating activities		
Interest on U.S. note payable settled with common shares	\$ (132,109)	\$ (33,829)
Financing activities		
Repayment on long-term debt with proceeds on sale of an interest in a consolidated subsidiary	–	(2,732,540)
Capital lease for financing property and equipment purchase	24,477	58,625
Adjustment of debt related to recalculation of purchase price on a book of business	(10,985)	–
Common shares issued to settle interest on U.S. note payable	132,109	33,829
	145,601	(2,640,086)
Investing activities		
Proceeds on sale of an interest in a consolidated subsidiary used to repay long-term debt	–	2,732,540
Adjustment of customer accounts related to recalculation of purchase price on a book of business	10,985	–
Property and equipment additions financed by capital lease	(24,477)	(58,625)
	(13,492)	2,673,915
	\$ –	\$ –

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## 20. 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.

## 21. SUBSEQUENT EVENTS

- a) On June 8, 2011, the Company sold the fixed assets 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 \$5,344,900 for the net sales proceeds and terminated and released the Company from all obligations under the loan agreements. See Note 22.
- b) 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 954,063 of its common shares which represents approximately 10% of the common shares issued and outstanding. The bid commenced May 19, 2011 and will terminate on May 18, 2012. No purchases have been made under this bid.

## 22. PROFORMA FINANCIAL INFORMATION (UNAUDITED)

The following table presents unaudited proforma balance sheet (extracted) as at March 31, 2011 as if the sale of the Company's fixed assets and customer accounts of its Southern California Agency locations (Note 21(a)) and settlement of U.S. Senior note (Note 6(b)(i) and Note 21(a)) had occurred as at March 31, 2011. The unaudited proforma information is not necessarily indicative of the combined results that would have occurred had the sale of its Southern California Agency locations and settlement of the U.S Senior note taken place at the beginning of the year presented, nor is it necessarily indicative of results that may occur in the future.

	As at March 31, 2011
Current assets	\$ 4,953,888
Property and equipment	265,132
Customer Accounts	3,263,376
Goodwill	12,172,466
<b>Total Assets</b>	<b>\$ 20,654,862</b>
Current Liabilities	\$ 7,661,028
Obligations under capital lease	14,593
Long-term debt	14,712,276
Future income taxes	134,264
Non-controlling interest in consolidated subsidiary	748,010
Shareholders' Equity	(2,615,309)
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 20,654,862</b>

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## FIVE YEAR SUMMARY

Years ended March 31,	2011	2010	2009	2008	2007
<b>OPERATIONS</b>					
Revenue	\$ 16,606,708	18,661,401	16,867,350	15,288,962	11,171,529
Earnings before interest, income taxes, depreciation and amortization and other (EBITDA)	3,169,052	4,283,586	3,159,718	1,596,646	1,818,607
Gain on sale of interest in consolidated subsidiary	1,421,370	4,519,209	1,278,148	—	—
Loss related to insolvency of U.S. franchisor	—	—	4,849,770	—	—
Gain on settlement of debt	—	2,842,237	7,293,681	—	—
Goodwill impairment	631,670	2,285,100	1,310,608	—	—
Interest and financing costs	1,910,998	2,129,851	3,165,071	3,222,288	4,648,749
Depreciation and amortization	1,351,994	1,377,080	1,811,805	2,125,110	994,455
Non-controlling interest	(625,129)	(888,495)	20,963	—	—
Income taxes (recovery)	621,779	943,423	(144,908)	(248,343)	150,782
Net earnings (loss) from continuing operations	(551,148)	4,021,083	760,164	(3,502,409)	(3,975,379)
Net earnings (loss)	\$ (551,148)	4,021,083	760,164	(3,529,556)	(3,997,983)
Earnings (loss) from continuing operations per share, basic	\$ (0.06)	0.43	0.09	(0.41)	(0.47)
Earnings (loss) from continuing operations per share, diluted	\$ (0.06)	0.41	0.09	(0.41)	(0.47)
<b>FINANCIAL POSITION</b>					
Current assets	\$ 4,953,888	5,693,118	6,756,822	3,381,009	3,022,652
Property and equipment	378,193	458,900	514,871	493,440	230,366
Customer accounts—Cost	9,626,363	9,682,844	8,480,969	5,048,425	4,979,220
Accumulated amortization	(6,362,987)	(5,157,066)	(2,550,667)	(2,936,698)	(2,659,234)
Net Customer accounts	3,263,376	4,525,778	5,930,302	2,111,727	2,319,986
Goodwill	16,714,211	17,797,876	23,156,507	15,564,070	7,324,961
Non-competition agreements	—	—	—	274,705	378,794
Deferred financing costs	—	—	—	—	451,558
Franchise fees	—	—	—	2,656,179	2,034,388
Total Assets	\$ 25,309,668	28,475,672	36,358,502	24,506,230	15,917,995
Current Liabilities	\$ 13,005,928	5,180,129	6,562,601	2,824,708	2,300,532
Long Term Debt	14,712,276	25,048,063	34,878,690	28,037,830	16,681,684
Future Income Taxes	134,264	235,859	312,267	63,767	169,302
Shareholders' Equity	(3,305,403)	(2,667,752)	(5,530,294)	(6,454,506)	(3,238,070)
Total Liabilities and Shareholders' Equity	\$ 25,309,668	28,475,672	36,358,502	24,506,230	15,917,995
Cash, end of year	\$ 1,646,909	2,638,036	2,875,053	403,554	773,982
<b>SHAREHOLDER INFORMATION</b>					
Common Shares Outstanding, at year end	9,540,638	9,773,851	9,524,978	8,551,978	8,551,978

## COMPANY INFORMATION

HEAD OFFICE	INVESTOR RELATIONS
<p>Suite 355, 10333 Southport Rd. SW Calgary, Alberta, Canada T2W 3X6 Telephone: (403) 278-8811 Fax: (403) 225-5745</p>	<p>Anthony Clark International Insurance Brokers Ltd. Mr. Tony Consalvo President Telephone: (403) 225-5100 Email: <a href="mailto:tony.consalvo@aclarkinsurance.com">tony.consalvo@aclarkinsurance.com</a></p>
WEBSITE	
<p><a href="http://www.anthonyclarkinsurance.com">www.anthonyclarkinsurance.com</a></p>	

DIRECTORS & OFFICERS	SHAREHOLDER INFORMATION
<p>Tony Consalvo Director, President &amp; Chief Executive Officer, Interim Chairman of the Board</p> <p>Mahesh Bhatia V. P. Finance &amp; Chief Financial Officer</p> <p>Douglas Farmer Director</p> <p>Normand Cournoyer Director</p> <p>Robert Sadleir Director</p> <p>Mark Hoffinger Corporate Secretary</p>	<p>Exchange Listings TSX Venture Exchange: ACL OTCQX International: ACKBF</p> <p>Legal Counsel Demianschuk Lequier Burke &amp; Hoffinger LLP Barristers &amp; Solicitors 1200, 1015 - 4th Street SW Calgary, AB T2R 1J4 <a href="http://www.legalsolutions.ca">www.legalsolutions.ca</a></p> <p>Auditor D&amp;H Group LLP 10th Floor, 1333 West Broadway Vancouver, BC V6H 4C1 <a href="http://www.dhgroup.ca">www.dhgroup.ca</a></p> <p>Registrar and Transfer Agent Canadian Stock Transfer Company Inc. 600, 333 - 7th Avenue SW Calgary, AB T2P 2Z1 <a href="http://www.cnastockta.com">www.cnastockta.com</a></p>





