



ANTHONY CLARK INTERNATIONAL
INSURANCE BROKERS LTD.

FIRST QUARTER 2011

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

JUNE 30, 2010

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.
Interim Consolidated Balance Sheets
(unaudited)

	June 30, 2010	March 31, 2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,500,131	\$ 2,638,036
Accounts receivable	2,353,032	2,315,394
Trust cash	286,909	235,503
Prepaid expenses	438,093	504,185
	<u>4,578,165</u>	<u>5,693,118</u>
Property and equipment	472,864	458,900
Customer accounts	4,239,303	4,525,778
Goodwill	18,262,255	17,797,876
	<u>\$ 27,552,587</u>	<u>\$ 28,475,672</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,140,938	\$ 2,104,318
Distribution payable to non-controlling interest	384,319	952,052
Income taxes payable	23,366	175,738
Current portion of long term-debt <i>(Note 3)</i>	1,920,035	1,912,880
Current portion of obligations under capital leases <i>(Note 4)</i>	37,679	35,141
	<u>4,506,337</u>	<u>5,180,129</u>
Obligations under capital leases <i>(Note 4)</i>	36,927	23,538
Long-term debt <i>(Note 3)</i>	25,013,024	25,048,063
Future income taxes	211,882	235,859
	<u>29,768,170</u>	<u>30,487,589</u>
Non-controlling interest in consolidated subsidiary <i>(Note 5)</i>	535,932	655,835
Commitments <i>(Note 11)</i>		
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 6)</i>	10,159,937	10,266,512
Accumulated other comprehensive income (loss)	(1,060,807)	(1,214,318)
Contributed surplus	2,131,782	2,001,435
Deficit	(13,982,427)	(13,721,381)
	<u>(2,751,515)</u>	<u>(2,667,752)</u>
	<u>\$ 27,552,587</u>	<u>\$ 28,475,672</u>

SUBSEQUENT EVENTS *(Note 16)*

See accompanying notes to the unaudited interim consolidated financial statements.

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.**Interim Consolidated Statements of Operations and Comprehensive Income (Loss)****(unaudited)**

	For the three months ended June 30,	
	2010	2009
Revenue	<u>\$ 4,331,640</u>	<u>\$ 4,741,414</u>
Expenses		
Salaries and wages	2,008,105	2,289,485
General and administrative	1,026,931	1,165,149
Rent	258,931	287,005
Stock-based compensation <i>(Note 7)</i>	<u>58,657</u>	<u>39,152</u>
	<u>3,352,624</u>	<u>3,780,791</u>
Earnings before interest, income taxes, depreciation and amortization and other	979,016	960,623
Gain on sale of interest in consolidated subsidiary <i>(Note 5)</i>	-	3,898,070
Gain on settlement of debt <i>(Note 3)</i>	-	2,842,237
Interest and financing costs <i>(Note 12)</i>	(494,403)	(577,001)
Depreciation and amortization	(339,177)	(360,156)
Earnings (loss) before income taxes	<u>145,436</u>	<u>6,763,773</u>
Income taxes:		
Current - (expense)	(166,042)	(669,714)
Future - recovery	<u>23,977</u>	<u>23,026</u>
	<u>(142,065)</u>	<u>(646,688)</u>
Non-controlling interest	<u>(264,417)</u>	<u>(39,706)</u>
Net earnings (loss) for the period	<u>(261,046)</u>	<u>6,077,379</u>
Other Comprehensive Income (loss)		
Unrecognized gain (loss) on translation of financial statements of self-sustaining foreign operations	<u>153,511</u>	<u>(458,829)</u>
Comprehensive Income (loss)	<u>\$ (107,535)</u>	<u>\$ 5,618,550</u>
Earnings (loss) per share - basic	<u>\$ (0.03)</u>	<u>\$ 0.64</u>
Earnings (loss) per share - diluted	<u>\$ (0.03)</u>	<u>\$ 0.64</u>

See accompanying notes to the unaudited interim consolidated financial statements.

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.
Interim Consolidated Statements of Cash Flows
(unaudited)

	For the three months ended June 30,	
	2010	2009
Cash flows from (used in) operating activities		
Net earnings (loss) for the period	\$ (261,046)	\$ 6,077,379
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	339,177	360,156
Future income taxes (recovery)	(23,977)	(23,026)
Amortization of deferred financing costs and loan discounts	12,233	29,054
Impairment of deferred financing costs	-	140,131
Interest on U.S. note payable settled with common shares	33,384	-
Stock-based compensation	58,657	39,152
Non-controlling interest	264,417	39,706
Gain on sale of interest in consolidated subsidiary	-	(3,898,070)
Gain on settlement of debt	-	(2,842,237)
	<u>422,845</u>	<u>(77,755)</u>
Changes in non-cash working capital accounts		
Accounts receivable	15,294	262,443
Prepaid expenses	47,124	(26,261)
Accounts payable and accrued liabilities	(49,350)	(512,149)
Income taxes	(152,372)	669,714
	<u>283,541</u>	<u>315,992</u>
Cash flows from (used in) financing activities		
Repayments on long-term debt	(442,693)	(3,190,909)
Proceeds from long-term debt	-	1,037,121
Repurchase of shares under issuer bid	(34,885)	(12,105)
Distribution to non-controlling interest	(952,052)	-
	<u>(1,429,630)</u>	<u>(2,165,893)</u>
Cash flows from (used in) investing activities		
Additions to property and equipment	(8,198)	(14,728)
Proceeds on sale of an interest in a consolidated subsidiary	-	2,397,330
	<u>(8,198)</u>	<u>2,382,602</u>
Effect of foreign exchange	<u>16,382</u>	<u>(107,474)</u>
Increase (decrease) in cash during the period	(1,137,905)	425,227
Cash, beginning of the period	<u>2,638,036</u>	<u>2,875,053</u>
Cash, end of the period	<u>\$ 1,500,131</u>	<u>\$ 3,300,280</u>

See Note 14.

See accompanying notes to the unaudited interim consolidated financial statements.

Anthony Clark International Insurance Brokers Ltd.
Interim Consolidated Statements of Shareholders' Equity
For the three months ended June 30, 2010
(unaudited)

	Share capital		Accumulated other comprehensive income (loss)	Contributed surplus	Deficit
	Shares	Amount			
Balance, March 31, 2010	9,773,851	\$ 10,266,512	\$ (1,214,318)	\$ 2,001,435	\$ (13,721,381)
Stock-based compensation	-	-	-	58,657	-
Excess of share stated amount over share redemption amount	-	-	-	71,690	-
Unrealized (gain) loss on translation of financial statements of self-sustaining foreign operations	-	-	153,511	-	-
Net earnings (loss) for the period	-	-	-	-	(261,046)
Charge to capital on repurchase of shares through issuer bid	(101,500)	(106,575)	-	-	-
Balance, June 30, 2010	<u>9,672,351</u>	<u>\$ 10,159,937</u>	<u>\$ (1,060,807)</u>	<u>\$ 2,131,782</u>	<u>\$ (13,982,427)</u>

See accompanying notes to the unaudited interim consolidated financial statements.

Anthony Clark International Insurance Brokers Ltd.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2010

(Expressed in Canadian dollars)

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. The interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited annual consolidated financial statements for the year ended March 31, 2010. As the interim consolidated financial statements do not contain all the disclosures required in annual financial statements, they should be read in conjunction with the Company's March 31, 2010 audited annual consolidated financial statements.

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.

2. ACCOUNTING POLICIES

Future accounting standards

The following is an overview of accounting standard changes that the Company will be required to adopt in future years:

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". These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

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.

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.

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be 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. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company has started the initial planning and assessment phase to ensure a timely transition to IFRS.

3. LONG-TERM DEBT

	June 30, 2010	March 31, 2010
Senior notes – 4.5% – 6.75%, due between June 2018 and January 2019 (a)	\$ 17,555,711	\$ 17,964,792
U.S. Senior note – 7% due September 2011 (b (iii))	5,833,300	5,585,800
U.S. Note payable – 14% due April 2012 (b)	3,446,950	3,300,700
U.S. Note payable – non-interest bearing due August 2010, net of unamortized discount of \$ 8,599 (March 31, 2010 – \$ 9,357)	26,755	24,497
Note payable – 5% due September 2010, net of unamortized discount of \$ 1,258 (March 31, 2010 – \$ 2,716)	21,509	44,983
Notes payable – without interest due between July 2010 and October 2010, net of unamortized discount of \$ 432 (March 31, 2010 – \$ 3,915)	<u>173,664</u>	<u>170,181</u>
	<u>27,057,889</u>	<u>27,090,953</u>
Deferred financing costs	(190,875)	(304,036)
Accumulated amortization	66,045	58,227
Impairment of deferred financing costs	<u>-</u>	<u>115,799</u>
	<u>(124,830)</u>	<u>(130,010)</u>
	26,933,059	26,960,943
Current portion	<u>(1,920,035)</u>	<u>(1,912,880)</u>
	\$ <u>25,013,024</u>	\$ <u>25,048,063</u>

- (a) On June 12, 2008, the Company closed secured debt financing arrangements with Intact Insurance Company (“Intact”), formerly ING Insurance Company of Canada, whereby Intact provided a \$ 10,000,000 ten-year term loan facility (the “Repayment Facility”) along with a facility of \$ 1,500,000 available for working capital purposes (the “Working Capital Facility”).

An amount of \$ 8,962,878 was drawn under the Repayment Facility to repay the Operating Line of Credit in full and to reduce the amount outstanding under a U.S. senior note. The unamortized deferred financing costs related to the operating line of credit and term loan were written off in the year ended March 31, 2009.

On June 20, 2008, the Company closed a \$ 4,500,000 Intact loan facility (the “Acquisition Facility”) to its subsidiary Anthony Clark Insurance Brokers Ltd. The Acquisition Facility is available to finance potential future Canadian expansion projects and purchases of Canadian insurance brokerages.

On January 29, 2009, an amendment was made to the loan agreement to increase the Acquisition Facility by \$ 9,500,000.

On April 23, 2009, 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 payout a term loan used to facilitate the extinguishment of a loan at a discount and partially pay down the balance remaining on the Working Capital Facility. The Company recognized a gain on sale with an additional adjustment to the sales proceeds applied to the reduction of outstanding senior debt.

The Company is also subject to certain covenants on an ongoing basis which came into effect in the quarter ended September 30, 2008, with failure to maintain compliance resulting in the loans becoming due on demand. The Company is in compliance with the covenants.

The above Intact facilities have been fully guaranteed and secured by the Canadian assets of the Company.

- (b) The November 15, 2008 and subsequent payments due on the U.S. senior notes were not made due to the insolvency of Brooke Capital Corporation, the franchisor of the Company's U.S. operations. The Company continued in discussions regarding the transition, ongoing servicing and assignment of the U.S. senior notes.

Also, in conjunction with the Intact refinancing, the U.S. denominated debt is now secured by the U.S. assets only with a guarantee provided by the Company.

- (i) On April 3, 2009, an amount of U.S. \$ 3,037,002 originally advanced on October 31, 2006 by the U.S. senior lender and later assigned, was paid out and settled for U.S. \$ 1,100,000. A gain of U.S. \$ 5,787,717 (CDN \$ 7,293,681) resulting from the extinguishment and amendment of the U.S. senior notes at a discount and the write-off of related unamortized deferred financing costs and accrued interest were recognized in the year ended March 31, 2009.
- (ii) On April 23, 2009, an amount of U.S. \$ 4,000,000 originally advanced by the 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.
- (iii) 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.

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

2011	\$ 1,920,035
2012	11,081,821
2013	1,911,484
2014	2,028,258
2015	2,152,329
Thereafter	<u>7,963,962</u>
	\$ <u>27,057,889</u>

4. OBLIGATIONS UNDER CAPITAL LEASES

	June 30, <u>2010</u>	March 31, <u>2010</u>
Obligations under capital leases, collateralized by the assets under lease	\$ 74,606	\$ 58,679
Current portion	<u>(37,679)</u>	<u>(35,141)</u>
	\$ <u>36,927</u>	\$ <u>23,538</u>

5. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARY

On June 10, 2008 and April 23, 2009, 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.

6. SHARE CAPITAL

- a) Authorized
Unlimited common shares without par value.
- 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 represents approximately 10% of the common shares issued and outstanding. The bid commenced May 14, 2009 and terminated on May 13, 2010. The Company has 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 will terminate on May 13, 2011.

The Company has made no repurchases of common shares under the bid as of June 30, 2010.

- 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 has 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. As such and with the required regulatory approvals received, the Company will issue 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. The price of CDN \$ 0.50 per common share represents 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.

7. 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 period ended June 30, 2010 and the year ended March 31, 2010, are as follows:

	June 30, 2010		March 31, 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	—	—	—	—
Expired	—	—	(717,399)	(0.45)
Outstanding, end of year	<u>1,054,489</u>	\$ <u>0.34</u>	<u>529,489</u>	\$ <u>0.33</u>

The following table sets forth information relating to stock options outstanding as at June 30, 2010:

Expiry	Exercise price	Number outstanding at June 30, 2010	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at June 30, 2010	Weighted average exercise price
February 28, 2011	\$ 0.33	529,489	0.67	\$ 0.33	441,240	\$ 0.33
April 1, 2013	\$ 0.36	525,000	2.75	\$ 0.36	—	\$ —
	\$ 0.33-0.36	1,054,489	1.70	\$ 0.34	441,240	\$ 0.33

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 during the quarter ended June 30, 2010, 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.

8. 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 quarter ended June 30, 2010, the Company incurred \$ 20,973 (2009 – \$ 33,185) of legal fees with a law partnership in which a partner is also a director.

9. 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 Company's debt contains general security restrictions and debt covenants. The Company's debt covenants came into effect September 30, 2008. At June 30, 2010, the Company is in compliance with these general security restrictions and debt covenants.

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 3 and 6 for description of changes in capital for the quarter.

10. FINANCIAL INSTRUMENTS

a) Fair value

The fair value of financial instruments at June 30, 2010 and March 31, 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.

	June 30, 2010		March 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
<i>Held for trading</i>				
Cash	\$ 1,500,131	\$ 1,500,131	\$ 2,638,036	\$ 2,638,036
Trust cash	286,909	286,909	235,503	235,503
<i>Loans and receivables</i>				
Accounts receivable	2,353,032	2,353,032	2,315,394	2,315,394
Financial liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	2,140,938	2,140,938	2,104,318	2,104,318
Distribution payable to non-controlling interest	384,319	384,319	952,052	952,052
Long-term debt	26,933,059	26,933,059	26,960,943	26,960,943
Obligations under capital leases	74,606	74,606	58,679	58,679

b) **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 June 30, 2010 and March 31, 2010, the Company is exposed to credit risk through the following assets:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>
Accounts receivable	\$ <u>2,353,032</u>	\$ <u>2,315,394</u>
Net credit risk	\$ <u>2,353,032</u>	\$ <u>2,315,394</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.

As at June 30, 2010 and March 31, 2010, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>
Cash	\$ 425,158	\$ 615,653
Accounts receivable	943,043	993,009
Accounts payable	(869,036)	(813,908)
Obligations under capital leases	(24,609)	-
Long-term debt	<u>(9,307,005)</u>	<u>(8,910,997)</u>
Net exposure	\$ <u>(8,832,449)</u>	\$ <u>(8,116,243)</u>

Based on the above net exposure at June 30, 2010 and March 31, 2010, 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 \$ 883,245 and \$ 811,624 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 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 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.

11. COMMITMENTS

The Company leases office premises under operating leases that expire at various dates during the 2011 through 2013 fiscal years. In addition, the Company has current obligations under certain advertising contracts. The Company's minimum lease and other payments under the agreements are as follows:

2011	\$	1,566,908
2012		247,025
2013		<u>53,197</u>
	\$	<u>1,867,130</u>

12. INTEREST AND FINANCING COSTS

	June 30, 2010	June 30, 2009
Canadian Operations		
Interest on long-term debt	\$ 264,320	\$ 300,625
Amortization of deferred financing costs and loan discount	8,157	24,423
Interest on obligations under capital lease	<u>1,617</u>	<u>2,653</u>
	<u>274,094</u>	<u>327,701</u>
U.S. Operations		
Interest on long-term debt	182,849	104,229
Interest on U.S. note payable settled with common shares	33,384	-
Amortization of deferred financing costs and loan discount	4,076	4,631
Impairment of deferred financing costs	-	140,131
Interest on obligations under capital lease	<u>-</u>	<u>309</u>
	<u>220,309</u>	<u>249,300</u>
	\$ <u>494,403</u>	\$ <u>577,001</u>

Impairment of deferred financing costs relates to the write-off of deferred financing costs related to the U.S. loans. See Note 3.

13. SEGMENT DISCLOSURES

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

	Three months ended June 30, 2010			Three months ended June 30, 2009		
	Canada	U.S.	Consolidated	Canada	U.S.	Consolidated
Operating Segments						
Revenue	\$ 2,707,342	\$ 1,624,298	\$ 4,331,640	\$ 2,710,252	\$ 2,031,162	\$ 4,741,414
Net earnings (loss)	171,430	(432,476)	(261,046)	3,481,935	2,595,444	6,077,379
Depreciation and amortization	285,415	53,762	339,177	297,195	62,961	360,156
Interest and financing costs	274,094	220,309	494,403	327,701	249,300	577,001
Identifiable assets	13,875,220	13,677,367	27,552,587	16,551,376	18,110,490	34,661,866
Property and equipment and intangibles	3,904,374	807,793	4,712,167	5,006,928	1,058,372	6,065,300
Goodwill	7,317,360	10,944,895	18,262,255	7,317,360	14,612,081	21,929,441

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended June 30, 2010 and 2009, the Company paid interest of \$ 450,429 and \$ 625,841 respectively, and paid income taxes of \$ 320,000 and \$ nil, respectively.

During the three months ended June 30, 2010 and 2009, the Company had non-cash transactions as follows:

	Three months ended June 30,	
	2010	2009
Financing activities		
Repayment on long-term debt with proceeds on sale of an interest in a consolidated subsidiary	\$ -	\$ (2,111,401)
Capital lease for financing property and equipment purchase	<u>24,477</u>	<u>58,625</u>
	<u>24,477</u>	<u>(2,052,776)</u>
Investing activities		
Proceeds on sale of an interest in a consolidated subsidiary used to repay long-term debt	\$ -	\$ 2,111,401
Property and equipment additions financed by capital lease	<u>(24,477)</u>	<u>(58,625)</u>
	<u>(24,477)</u>	<u>2,052,776</u>
	\$ <u>-</u>	\$ <u>-</u>

15. 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.

16. **SUBSEQUENT EVENT**

On July 14, 2010, the Company closed an equity financing under which a further non-controlling interest in a consolidated subsidiary of the Company which operates the Canadian operations, was sold. The Company recognized a gain on the sale.