



Consolidated Financial Statements  
**March 31, 2011 and 2010**

## **Management's Report**

### **To the Shareholders of Mediagrif Interactive Technologies Inc./Technologies Interactives Mediagrif Inc.**

The accompanying consolidated financial statements of Mediagrif Interactive Technologies Inc./Technologies Interactives Mediagrif Inc. ("the Corporation") and all the information in the Management's Discussion and Analysis are the responsibility of management and are approved by the Board of Directors.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the consolidated financial statements and notes.

Management has a system of internal controls designed to provide reasonable assurance that the consolidated financial statements are accurate and complete in all material respects.

The internal control process includes management's communication to employees of policies that govern ethical business conduct. Management believes that the internal controls provide reasonable assurance that its financial records are reliable and form a proper basis for preparing the consolidated financial statements, and that its assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility relative to the consolidated financial statements principally through its Audit Committee, consisting solely of independent directors, which reviews the consolidated financial statements and reports thereon to the Board. The Committee meets periodically with the independent auditors and management to review their respective activities and the discharge by each of their responsibilities. The independent auditors have free access to the Committee, with or without the presence of management, to discuss the scope of their audits, the adequacy of the system of internal controls and the adequacy of financial reporting.

Deloitte & Touche LLP, appointed by the shareholders as the Company's independent auditors, have audited the consolidated financial statements.

(signed)  
Claude Roy  
President and Chief Executive Officer

(signed)  
Suzanne Mercier  
Chief Financial Officer

June 14, 2011

## Independent auditor's report

To the shareholders of  
Technologies Interactives Mediagrif Inc./Mediagrif Interactive Technologies Inc.

We have audited the accompanying consolidated financial statements of Technologies Interactives Mediagrif Inc./Mediagrif Interactive Technologies Inc., which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the year 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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


We believe that the audit evidence we have obtained in our audit 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 Technologies Interactives Mediagrif Inc./Mediagrif Interactive Technologies Inc. as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Other Matter**

The financial statements of Technologies Interactives Mediagrif Inc./Mediagrif Interactive Technologies Inc. for the year ended March 31, 2010, were audited by another auditor who expressed an unmodified opinion on those statements on June 8, 2010.

Handwritten signature in black ink, appearing to read "J. L. L. Tremblay".

June 14, 2011

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<sup>1</sup> Chartered accountant auditor permit No. 13556

Consolidated Balance Sheets  
As at March 31, 2011 and 2010

	2011 \$	2010 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	26,520,626	34,359,693
Cash held for the benefit of others (note 2)	2,994,652	4,026,298
Investments	3,505,303	-
Accounts receivable	5,136,341	4,479,195
Tax credits receivable	3,059,630	1,363,245
Prepaid expenses	819,542	711,349
Derivative financial instruments (note 18)	865,614	573,903
Future income taxes (note 13 c))	443,468	-
	<b>43,345,176</b>	<b>45,513,683</b>
<b>Fixed assets</b> (note 6)	<b>3,099,240</b>	<b>1,423,366</b>
<b>Intangible assets</b> (note 7 a))	<b>594,152</b>	<b>894,066</b>
<b>Acquired intangible assets</b> (note 7 b))	<b>5,311,167</b>	<b>2,674,919</b>
<b>Goodwill</b> (note 8)	<b>27,591,276</b>	<b>25,991,266</b>
<b>Future income taxes</b> (note 13 c))	<b>7,112,435</b>	<b>5,684,486</b>
	<b>87,053,446</b>	<b>82,181,786</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	9,034,377	9,696,398
Income taxes payable	472,265	389,945
Deferred revenues	9,975,703	8,716,728
Current portion of long-term debt (note 9)	124,008	-
Current portion of deferred lease inducement	119,574	-
Future income taxes (note 13 c))	1,173,068	605,880
	<b>20,898,995</b>	<b>19,408,951</b>
<b>Long-term debt</b> (note 9)	<b>163,491</b>	<b>-</b>
<b>Deferred lease inducement</b>	<b>1,101,832</b>	<b>-</b>
<b>Future income taxes</b> (note 13 c))	<b>699,009</b>	<b>128,788</b>
	<b>22,863,327</b>	<b>19,537,739</b>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 10 b))	<b>47,235,942</b>	<b>47,809,345</b>
<b>Share purchase options</b> (note 10 c))	<b>428,501</b>	<b>1,687,721</b>
<b>Contributed surplus</b> (note 10 d))	<b>3,195,131</b>	<b>2,491,291</b>
<b>Retained earnings</b>	<b>13,064,897</b>	<b>10,602,038</b>
<b>Accumulated other comprehensive income</b>	<b>265,648</b>	<b>53,652</b>
	<b>64,190,119</b>	<b>62,644,047</b>
	<b>87,053,446</b>	<b>82,181,786</b>

Commitments (note 12)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(signed)  
Gilles Laurin, Director

(signed)  
Claude Roy, Director

Consolidated Statements of Retained Earnings  
For the years ended March 31, 2011 and 2010

	2011 \$	2010 \$
<b>Retained earnings – Beginning of year</b>	<b>10,602,038</b>	9,240,741
Net earnings for the year	<b>8,396,800</b>	2,526,839
	<b>18,998,838</b>	11,767,580
Premium on redemption of common shares for cancellation (note 10 b) i)	<b>(1,112,820)</b>	-
Dividends declared on common shares	<b>(4,821,121)</b>	(1,392,227)
Adjustment due to a previous share buyback	-	226,685
<b>Retained earnings – End of year</b>	<b>13,064,897</b>	10,602,038

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income  
For the years ended March 31, 2011 and 2010**

	2011 \$	2010 \$
<b>Net earnings for the year</b>	<b>8,396,800</b>	2,526,839
Foreign currency translation adjustment	-	(236,075)
Reclassification of realized gains or losses on foreign currency forward contracts, net of future income taxes of \$129,656 (2010 – \$53,706)	<b>(287,644)</b>	112,368
Change in unrealized gains on foreign currency forward contracts, net of future income taxes of \$209,371 (2010 – \$468,838)	<b>499,640</b>	1,060,814
	<b>211,996</b>	937,107
<b>Comprehensive income for the year</b>	<b>8,608,796</b>	3,463,946

**Consolidated Statements of Accumulated Other Comprehensive Income  
As at March 31, 2011 and 2010**

	2011 \$	2010 \$
<b>Foreign currency translation adjustment</b>		
Cumulative effects of prior years	<b>(344,350)</b>	(108,275)
Current year	-	(236,075)
	<b>(344,350)</b>	(344,350)
<b>Unrealized gains (losses) on foreign currency forward contracts</b>		
Cumulative effects of prior years	<b>398,002</b>	(775,180)
Change in gains on foreign currency forward contracts, net of future income taxes of \$79,715 (2010 – \$522,544)	<b>211,996</b>	1,173,182
	<b>609,998</b>	398,002
<b>Accumulated other comprehensive income</b>	<b>265,648</b>	53,652

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings  
For the years ended March 31, 2011 and 2010

	2011 \$	2010 \$
<b>Revenues</b>	<b>47,076,361</b>	45,725,412
<b>Cost of revenues</b>	<b>10,254,043</b>	10,292,616
<b>Gross margin</b>	<b>36,822,318</b>	35,432,796
<b>Operating expenses</b>		
General and administrative	8,090,969	8,676,229
Sales and marketing	7,663,366	8,735,076
Technology (note 11)	7,420,757	7,574,458
Amortization of acquired intangible assets	965,601	689,501
Stock-based compensation	(334,690)	280,783
	<b>23,806,003</b>	25,956,047
<b>Earnings from operations</b>	<b>13,016,315</b>	9,476,749
Other expenses, net (note 15 b))	(424,476)	(2,759,216)
<b>Earnings before income taxes</b>	<b>12,591,839</b>	6,717,533
Provision for income taxes (note 13 a))	4,195,039	4,190,694
<b>Net earnings for the year</b>	<b>8,396,800</b>	2,526,839
<b>Basic net earnings per share</b>	<b>0.61</b>	0.18
<b>Diluted net earnings per share</b>	<b>0.61</b>	0.18
<b>Weighted average number of shares outstanding (note 10 g))</b>		
Basic	13,783,575	13,939,109
Diluted	13,804,375	13,939,109
<b>Number of shares outstanding – End of year</b>	<b>13,681,554</b>	13,895,744

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows  
For the years ended March 31, 2011 and 2010

	2011 \$	2010 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net earnings for the year	8,396,800	2,526,839
Adjustments for		
Amortization of fixed assets	1,139,236	1,223,625
Amortization of intangible assets	565,954	764,493
Amortization of acquired intangible assets	965,601	689,501
Amortization of deferred lease inducement	(21,922)	-
Foreign exchange	581,086	282,000
Stock-based compensation	(334,690)	280,783
Future income taxes (note 13 a))	876,023	1,318,838
Loss on disposal of fixed assets	38,257	16,592
Changes in non-cash working capital items (note 15 a))	(1,928,458)	4,611,245
Increase in deferred lease inducement	1,243,328	-
	<b>11,521,215</b>	<b>11,713,916</b>
<b>Investing activities</b>		
Business acquisitions, net of cash and cash equivalents acquired (note 5)	(7,674,432)	-
Acquisition of fixed assets and intangible assets	(2,569,964)	(1,130,886)
Acquisition of short-term investments	(3,505,303)	-
Proceeds on disposal of fixed assets	34,172	11,045
	<b>(13,715,527)</b>	<b>(1,119,841)</b>
<b>Financing activities</b>		
Long-term debt repayment	(324,990)	-
Purchase of common shares for cancellation (note 10 b) i))	(2,136,813)	(411,590)
Issuance of common shares (note 10 b) ii))	229,900	-
Cash dividends paid on common shares	(3,863,412)	(1,392,227)
	<b>(6,095,315)</b>	<b>(1,803,817)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(8,289,627)</b>	<b>8,790,258</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>(581,086)</b>	<b>(518,075)</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>38,385,991</b>	<b>30,113,808</b>
<b>Cash and cash equivalents – End of year</b>	<b>29,515,278</b>	<b>38,385,991</b>
Cash and cash equivalents comprise the following balance sheet amounts:		
Cash and cash equivalents	26,520,626	34,359,693
Cash held for the benefit of others	2,994,652	4,026,298
<b>Supplementary information</b>		
Interest paid	42,564	93,318
Income taxes paid	2,847,251	1,841,487

See accompanying notes to consolidated financial statements.

## 1 Incorporation and nature of operations

The Company, incorporated on February 16, 1996 under the *Canada Business Corporations Act*, operates in the e-business industry. It is a developer, owner and operator of e-business networks and a provider of e-business solutions. Its e-business networks allow buyers and sellers within specific industries to source, purchase or sell products and to exchange information more efficiently using the Internet. Also, the Company provides equipment manufacturers with complete solutions to online trade-in, recycling, donation and promotional programs.

The Company operates its activities through its wholly-owned subsidiaries. In addition, the Company has interests in two joint ventures (the "joint ventures") in which it shares joint control with its co-venturers. The Company's interest in and the operations of these joint ventures are summarized as follows:

- a) A 50% ownership in Société d'investissement M.-S. S.E.C. (a limited partnership), which operates under the name Global Wine & Spirits ("GWS"). GWS operates an Internet business-to-business ("B2B") electronic network offering an integrated solution for the purchase and sale of wine and spirits.
- b) A 50% ownership in Polygon DMCC, through its wholly-owned subsidiary Mediagrif DMCC. In August 2008, the Board of Polygon DMCC decided to close its offices in Asia. However, the Company continues to manage its international members from Canada. Polygon DMCC is under liquidation.

## 2 Significant accounting policies

### Changes in accounting policies

On April 1, 2010, the Company elected to adopt three Handbook Sections issued by the Canadian Institute of Chartered Accountants ("CICA"), as earlier application is permitted. These Sections had to be implemented concurrently.

#### Business Combinations

Section 1582, "Business Combinations," requires, among other things, that most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at "full fair value" and acquisition-related costs be recognized as expenses as incurred and that liabilities associated with restructuring or exit activities be recognized only if they meet the definition of a liability as of the acquisition date.

Due to the adoption of this standard, acquisition-related costs incurred during the year were recorded directly in the consolidated statement of earnings. This Section had no impact on the business combinations which occurred prior to April 1, 2010.

## Consolidated Financial Statements

Section 1601, "Consolidated Financial Statements," establishes standards for the preparation of consolidated financial statements. This Section supersedes the like-named Section 1600 and carries forward its consolidated guidance.

The adoption of this standard had no impact on the consolidated financial statements.

## Non-Controlling Interests

Section 1602, "Non-Controlling Interests," requires non-controlling interest to be reported as a separate component of equity, with the net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interests.

The adoption of this standard had no impact on the consolidated financial statements.

## Future accounting changes

### International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada will be converged with IFRS with a changeover date on January 1, 2011. As a result, the Company is required to prepare its consolidated financial statements in accordance with IFRS for interim and annual financial statements relating to fiscal year beginning April 1, 2011. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

## Consolidation policies

These consolidated financial statements include the accounts of the Company and its subsidiaries. Interests in joint ventures are proportionately consolidated based on the Company's ownership interest.

## Management estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates. The most significant areas requiring the use of management estimates relate to: amortization methods and useful lives of assets, impairment of assets including goodwill, intangible assets and acquired intangible assets, purchase price allocation, stock-based compensation, fair value of financial instruments, valuation of future income tax assets and liabilities and provisions for income taxes. Actual results could differ from those estimates.

### **Classification and measurement of financial instruments**

The accounting framework of financial instruments requires that all financial assets and financial liabilities be accounted for using one of the four available accounting models: held to maturity, available for sale, held for trading and other than held for trading. The Company has classified its accounts receivable as loans and receivables and its accounts payable and accrued liabilities and the long-term debt as other financial liabilities, each of which is carried at amortized cost. The Company has classified its cash and cash equivalents, cash held for the benefit of others and investments as held for trading.

### **Foreign currency translation**

#### **a) Foreign currency transactions and integrated foreign operations**

The Company follows the temporal method for the translation of foreign currency transactions and integrated foreign operations. Monetary items are translated at the rate in effect at the balance sheet date, non-monetary items (and the related amortization) are translated at their historical rate, and revenues and expenses are translated at the average exchange rate during the year. Translation gains and losses are included in Other expenses.

#### **b) Self-sustaining foreign operations**

The Company follows the current rate method for the translation of self-sustaining foreign operations. Under this method, assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses at the average exchange rate during the year. Foreign exchange gains and losses are included as a component of Accumulated other comprehensive income. When a self-sustaining foreign operation is reclassified as an integrated foreign operation, the exchange gains or losses previously recorded in Accumulated other of comprehensive income continue to be included in Accumulated other of comprehensive income.

Since April 1, 2010, the Company no longer owns self-sustaining foreign operations.

### **Cash and cash equivalents and short-term investments**

Cash and cash equivalents include bank balances of \$14,416,110 (2010 – \$14,320,312) and liquid investments of \$12,104,516 (2010 – \$20,039,381) that are readily convertible in the short term into a known amount of cash and whose risk of a change in value is negligible.

Short-term investments consist of guaranteed investment certificates with terms greater than three months and less than one year at the time of acquisition, bearing interest rates of 1.2% (2010 – nil) and that can be cashed any time after 30 days without penalty. The interest revenue generated by cash equivalents and short-term investments is presented in Other expenses in the consolidated statement of earnings.

### **Rebate and disposition of assets and liabilities and escrow transactions**

The Company's service offerings include the administration of rebate programs and used equipment trade-in transactions for certain customers. In connection with these activities, the Company frequently receives cash from its customers (in the case of rebate programs) and remarketers of used equipment, which, net of any related commissions earned by the Company, must ultimately be remitted to the counterparty in such transactions. Amounts related to these transactions are described in Note 3.

The amount received as at March 31, 2011 not remitted to the third parties is presented on the balance sheet as cash held for the benefit of others.

In addition, the Company offers an escrow service. In connection with these activities, the Company is appointed as an escrow agent to receive, hold and process funds. The Company receives cash that is released, net of any related fees, costs or expenses, to the vendor at the conclusion of a transaction between a vendor and a buyer. The cash received is presented on the balance sheet as Cash held for the benefit of others.

The total accounts payable for these transactions are presented on the balance sheet as accounts payable and accrued liabilities.

### **Revenue recognition**

Revenues ensue regularly from membership fees, disposition fees, transaction fees, integration, maintenance and hosting services. From time to time, the Company generates revenues from software development and sales of licenses. In all instances, revenues are not recognized prior to the determination that persuasive evidence of an arrangement exists, delivery has occurred or the service has been rendered, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured. In addition to the aforementioned general policies, the specific revenue recognition policies for the Company's major revenue categories are as follows:

- Membership fees are recognized ratably over the period of the agreement.
- Any initial up-front fees which do not have stand-alone value to the members are deferred and amortized on a straight-line basis over the shorter of the estimated useful life of the technology underlying the network and the estimated remaining life of the relationship with the corresponding membership group.
- Disposition revenue, which is the commission earned by the Company when used equipment is sold through the Company's website, is recognized when the related used equipment is accepted by the remarketer. Disposition revenue is accounted for on a net basis as the Company acts as an agent between the entity selling and the entity buying the used equipment.
- Transactions fees are recognized when the transactions occur.

- Revenues from integration, maintenance and hosting services are recognized ratably over the period of the agreement.
- Software development revenues are recognized using the percentage-of-completion method.
- Revenues from sales of licenses are recognized when the transaction occurs.

During the year ended March 31, 2011, the Company has not entered into non-monetary transactions whereby memberships are exchanged for advertising. These transactions are measured at a fair value (2010 – US\$78,525) and are recorded in Revenues and Sales and marketing expenses.

### Fixed assets

Fixed assets are recorded at cost less accumulated amortization. Amortization is provided for based on the estimated useful lives of the related assets using the following methods and periods or annual rate:

	<b>Method</b>	<b>Period/Rate</b>
Office furniture	Declining balance	20%
Computer and other equipment	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

### Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows expected to be generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset.

### Intangible assets

Intangible assets comprise software and acquired intangible assets.

#### Software

Certain software is purchased to fulfill the Company's technological needs and is recorded at cost. Software also includes internally-developed software and websites, which comprise capitalized personnel costs of the Company's development group that meet accepted criteria for deferral. These costs are amortized on a straight-line basis over their estimated useful lives ranging from three to five years.

### Acquired intangible assets

Acquired intangible assets are amortized on a straight line-basis over the estimated useful lives of the related assets, as follows:

<b>Category</b>	<b>Period</b>
Customer bases	3 to 10 years
Technology	5 years
Trademarks	10 years
Databases	5 years
Non-compete agreements	1 year

### Goodwill

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill is not amortized; however, it is evaluated for impairment using a two-step test annually or when events or changes in circumstances indicate an impairment may have occurred. The first step involves comparing the carrying value of the reporting unit to which goodwill relates to its fair value. If the carrying value of the reporting unit exceeds its estimated fair value, its goodwill is tested for impairment. If the carrying value of its goodwill is determined to be in excess of its fair value, an impairment loss is recognized as the excess of the carrying value over the fair value. The Company has selected March 31 as the date of its annual impairment test for goodwill.

### Income taxes

The Company provides for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

### Tax credits

Pursuant to a Quebec government program aimed at assisting companies operating in the information technology sector, the Company has received formal confirmation of its eligibility to receive supplementary tax credits (New Economy Tax Credits). These refundable tax credits are generally earned at an annual rate of 40% of salaries paid to employees engaged in eligible activities, to a maximum annual refundable tax credit of \$15,000 per employee. In addition, Canadian subsidiaries are eligible to the development of E-Business tax credit. These refundable tax credits are generally earned at an annual rate of 30% of salaries paid to employees engaged in eligible activities, to a maximum annual refundable tax credit of \$20,000 per employee.

Research and development and other tax credits are accounted for as a reduction of the related expenditures. The refundable portion of tax credits is recorded in the year in which the related expenditures are incurred. The non-refundable portion of tax credits is recorded in the year in which the related expenditures are incurred to the extent that realization of such credits is considered to be reasonably assured.

### **Technology**

Technology expenses consist principally of payroll and related expenses for research and development as well as amortization of certain assets required for research and development activities. Technology expenses are expensed as incurred, except for certain costs relating to the development of internally-developed software and websites, including upgrades and enhancements of the Company's websites, which are capitalized and amortized over a period ranging from three to five years. Amortization of internally-developed software and websites is included in Technology expenses.

### **Stock-based compensation plan and other stock-based payments**

The Company has a stock-based compensation plan which is described in note 10. The fair value of the share purchase options is evaluated at the grant date. Stock-based compensation expense is recognized over the vesting periods of the options with an offsetting credit to Share purchase options. Upon exercise of the share purchase options, the associated compensation amount is reclassified from Share purchase options to Capital stock. Consideration paid by employees and directors upon exercise of share purchase options is credited to Capital stock. The expired options are accounted for as they occur by reducing Share purchase options with an offsetting credit to Contributed surplus. The forfeited options are accounted for either by reducing the Share purchase options account and increasing the Contributed surplus or by reversing the previously recognized stock-based compensation expense depending on whether the options have been vested or not.

### **Derivative financial instruments**

A portion of the Company's revenues and operating expenses is denominated in US dollars. The Company uses foreign currency forward contracts to hedge a portion of these revenues. It does not use derivative financial instruments for speculative purposes. Effectiveness of the hedge is assessed both at inception and on an ongoing basis. Management considers the hedges to be effective and thus accounts for the contracts in accordance with hedge accounting requirements. Gains and losses on foreign currency forward contracts designated as effective hedges are recorded in the consolidated statement of comprehensive income and recognized in the consolidated statement of earnings during the same period as the underlying revenues.

### **Deferred lease inducements**

The deferred lease inducements refer to the reimbursement of leasehold improvement expenses and free rent assumed by the landlord within the framework of lease agreements of commercial premises. The deferred lease inducement is amortized on a straight-line basis over the terms of the leases falling due in April 2016 and in October 2020. Amortization is recorded as a reduction of the rent expense in the statement of earnings.

### 3 Rebate and disposition of assets and liabilities and escrow transactions

Cash received as at March 31, 2011 for the administration of rebate programs and used equipment trade-in transactions, but not yet remitted to the counterparty, amounted to \$460,261 (US\$473,617) (2010 – \$1,325,040 (US\$1,304,687)) and is presented on the balance sheet as Cash held for the benefit of others. As at March 31, 2011, the amount of accounts receivable related to rebate and disposition transactions amounted to \$514,977 (US\$529,921) (2010 - \$1,439,007 (US\$1,416,903)).

The amount received as at March 31, 2011 for escrow services not remitted to the third parties is presented on the balance sheet as Cash held for the benefit of others and amounts to \$2,534,391 (US\$2,607,935) (2010 - \$2,701,258 (US\$2,659,766)).

The total accounts payable for these transactions amounts to \$3,509,629 (US\$3,611,473) (2010 - \$5,465,305 (US\$5,381,356)).

### 4 Joint ventures

The Company's pro rata share of its joint ventures' operations included in the consolidated financial statements before intercompany eliminations is summarized as follows:

	2011 \$	2010 \$
Earnings		
Revenues	1,445,988	1,680,066
Cost of revenues	174,784	261,676
Operating expenses	860,494	1,168,466
Net earnings	361,933	204,215
Cash flows		
Provided by operating activities	485,009	187,069
Provided by investing activities	-	-
Used in financing activities	-	-
Balance sheet		
Current assets	1,141,852	848,800
Long-term assets	-	-
Current liabilities	306,508	369,261
Long-term debt	-	-

After intercompany eliminations, the pro rata share of the Company in the net income of the joint ventures is \$851,873 (2010 – \$858,559) and the pro rata share of the current liabilities is \$224,120 (2010 – \$279,714).

## 5 Business acquisitions

### Fiscal year ended March 31, 2011

On December 22, 2010, the Company acquired all shares of InterTrade Systems Inc. ("InterTrade") for a cash consideration of \$8,070,500.

InterTrade offers e-commerce solutions that allow its clients to efficiently manage and control their supply chain. The Company expects that its existing networks will be able to extend their product offerings and have access to a strong EDI (Electronic Data Interchange) platform.

The acquisition was accounted for under the purchase method. The purchase price allocation of the identifiable assets acquired and liabilities assumed is summarized as follows:

	December 22, 2010 \$
<b>Assets</b>	
<b>Current assets</b>	
Accounts receivable	1,980,604
Tax credits receivable	712,139
Prepaid expenses	98,557
	<b>2,791,300</b>
<b>Long-term assets</b>	
Future income taxes	2,486,344
Fixed assets and intangible assets	583,615
Identifiable acquired intangible assets	
Customer base	2,470,000
Technology	1,118,849
Non-compete agreements	13,000
Total	<b>9,463,108</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable, accrued liabilities and others	1,682,406
Income tax payable	16,500
Deferred revenues	280,693
Current portion of long-term debt	282,053
	<b>2,261,652</b>
<b>Long-term liabilities</b>	
Long-term debt	330,436
Future income taxes	796,598
	<b>3,388,686</b>
Net identifiable assets acquired, net amount	<b>6,074,422</b>
Goodwill, not deductible for tax purposes	<b>1,600,010</b>
Purchase price	<b>8,070,500</b>
Less : Cash and cash equivalents acquired	<b>396,068</b>
Net cash consideration	<b>7,674,432</b>

The goodwill of \$1,600,010 mainly represents the future economic value associated to the work force acquired and synergies with the Company's operations.

InterTrade operating results have been included in the consolidated financial statements since the acquisition date. During the fiscal year ended March 31, 2011, InterTrade's revenues represent approximately 3% of consolidated revenue of the Company and the net earnings amount is not significant.

On a pro forma basis, the Company's revenues and net earnings would respectively be at approximately \$51,100,000 and \$8,600,000, had the acquisition occurred as at April 1, 2010. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of operating results of the Company if the acquisition actually occurred on April 1, 2010, nor of the results that may be achieved in the future.

#### Fiscal year ended March 31, 2010

During fiscal year ended March 31, 2010, the Company did not complete any business acquisitions.

## 6 Fixed assets

a) Fixed assets comprise the following:

	2011		
	Cost \$	Accumulated amortization \$	Net \$
Office furniture	1,348,678	782,849	565,829
Computer and other equipment	7,610,597	6,175,668	1,434,929
Leasehold improvements	1,196,134	97,652	1,098,482
	<b>10,155,409</b>	<b>7,056,169</b>	<b>3,099,240</b>
	2010		
	Cost \$	Accumulated amortization \$	Net \$
Office furniture	1,282,074	1,122,301	159,773
Computer and other equipment	8,993,449	7,810,594	1,182,855
Leasehold improvements	1,250,772	1,170,034	80,738
	<b>11,526,295</b>	<b>10,102,929</b>	<b>1,423,366</b>

- b) Fixed assets include assets under capital lease with a cost of \$198,146 and accumulated amortization of \$23,387 (2010 – nil).
- c) Amortization of fixed assets amounted to \$1,139,236 for the year ended March 31, 2011 (2010 – \$1,223,625).
- d) Acquisition of fixed assets amounted to \$2,887,539 for the year ended March 31, 2011 (2010 – \$848,218), including \$423,973 related to business acquisitions.
- e) Disposal of fixed assets amounted to \$72,429 for the year ended March 31, 2011 (2010 – \$27,637).

## 7 Intangible assets and acquired intangible assets

- a) Intangible assets comprise the following:

	2011 \$	2010 \$
Software, net of accumulated amortization of \$5,001,835 (2010 – \$4,699,051)	496,744	543,938
Internally-developed software and websites, net of accumulated amortization of \$940,724 (2010 – \$655,693)	97,408	350,128
	<b>594,152</b>	894,066

- i) Amortization of software amounted to \$280,923 for the year ended March 31, 2011 (2010 – \$344,248).
- ii) Amortization of internally developed software and websites amounted to \$285,031 for the year ended March 31, 2011 (2010 – \$420,245).
- iii) Acquisition of software amounted to \$233,729 for the year ended March 31, 2011 (2010 – \$78,063), including \$159,642 related to business acquisitions.
- iv) Additions to capitalized internally-developed software and websites amounted to \$32,311 for the year ended March 31, 2011 (2010 – \$204,605).

b) Acquired intangible assets comprise the following:

	2011 \$	2010 \$
Customer bases, net of accumulated amortization of \$5,999,906 (2010 – \$5,254,572)	4,017,084	2,292,418
Technology, net of accumulated amortization of \$1,834,987 (2010 – \$1,633,094)	1,240,031	323,075
Trademarks, net of accumulated amortization of \$559,753 (2010 – \$546,695)	44,615	57,673
Non-compete agreements, net of accumulated amortization of \$3,563 (2010 – nil)	9,437	-
Databases, net of accumulated amortization of \$28,653 (2010 – \$26,900)	-	1,753
	<b>5,311,167</b>	<b>2,674,919</b>

- i) Amortization of acquired intangible assets amounted to \$965,601 for the year ended March 31, 2011 (2010 – \$689,501).
- ii) Acquired intangible assets related to business acquisitions amounted to \$3,601,849 for the year ended March 31, 2011 (2010 – nil) (note 5).

## 8 Goodwill

	2011 \$	2010 \$
Beginning of year	25,991,266	25,991,266
Business acquisitions (note 5)	1,600,010	-
Balance – End of year	<b>27,591,276</b>	<b>25,991,266</b>

## 9 Long-term debt

Following the acquisition of InterTrade on December 22, 2010, the Company assumes certain long-term debts. The following table summarizes information about long-term debts as at March 31:

	2011 \$	2010 \$
Demand loan of up to \$123,940, bearing interest at the rate of 6.22%, repayable in equal monthly instalments, maturing in October 2013	107,997	-
Obligations under capital leases, bearing a weighted average interest rate of 6.40% and repayable in blended monthly instalments maturing at various dates until October 2013	179,502	-
	<b>287,499</b>	-
Current portion	124,008	-
Long-term portion	163,491	-

As at March 31, 2011, InterTrade also had the following unused credit facilities:

- Demand loan of up to \$450,000, bearing interest at the prime rate plus 2.50% cancelled May 31, 2011;
- Currency conversion risk facility of up to \$150,000 cancelled May 31, 2011;
- Credit facility of up to \$60,000 for business credit cards renewed May 31, 2011.

The security for the demand loan reimbursed and cancelled before March 31, 2011 is as follows:

- A loan guarantee by Investissement Québec of up to 70% of the outstanding loan balance;
- A movable hypothec in the amount of \$415,000 on all InterTrade's movable property: this hypothec was cancelled on May 2, 2011;
- A first-ranking guarantee on a bank deposit of \$125,000.

As follows, the capital payments for the years ended March 31:

	Loans	Obligation under capital leases		Capital payment Total \$
	Capital \$	Capital \$	Interest \$	
2012	39,890	84,118	8,226	124,008
2013	42,281	64,179	3,388	106,460
2014	25,826	31,205	469	57,031
Total	107,997	179,502	12,083	287,499

## 10 Capital stock, share purchase options and contributed surplus

- a) Authorized, unlimited number  
Common shares  
Preferred shares, issuable in series, with terms, conditions and dividends to be determined by the Board of Directors upon issuance

- b) The following table summarizes common share activity for the last two fiscal years:

	2011		2010	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of year	13,895,744	47,809,345	13,974,058	48,078,790
Purchased for cancellation (note 10 b) i))	(251,690)	(867,492)	(78,314)	(269,445)
Exercise of stock options (note 10 b) ii))	37,500	294,089	-	-
Balance – End of year	13,681,554	47,235,942	13,895,744	47,809,345

- i) During the year ended March 31, 2011, the Company purchased 251,690 of its own shares (2010 – 78,314) for cancellation for a cash consideration totalling \$2,136,813 (2010 – \$411,590) in connection with its normal course issuer bid. Capital stock has been reduced by the average issue price per share before buyback of \$3.45 (2010 – \$3.44) totalling \$867,492 (2010 – \$269,445), with the resulting premium or discount on redemption having been charged to Retained earnings or Contributed surplus.
- ii) During the year ended March 31, 2011, 37,500 (2010 - no common shares) common shares were issued pursuant to the exercise of stock options for a cash consideration totalling \$229,900 (2010 – nil), an average of \$6.13 per share. An amount of \$64,189 has been credited to capital stocks representing the stock-based compensation initially realized in the share purchase option for those options (note 10 c)).

c) The following table summarizes the share purchase option activity:

	2011 \$	2010 \$
Balance – Beginning of year	1,687,721	1,646,780
Stock-based compensation expense (reversal)	(334,690)	280,783
Transfer of accumulated compensation cost upon exercise of stock options (note 10 b) ii))	(64,189)	-
Transfer of accumulated compensation cost related to stock options vested but not exercised	(860,341)	(239,842)
Balance – End of year	428,501	1,687,721

d) The following table summarizes contributed surplus activity for the last two fiscal years:

	2011 \$	2010 \$
Balance – Beginning of year	2,491,291	2,393,594
Transfer of accumulated compensation cost related to stock options vested but not exercised	860,341	239,842
Reduction of the contributed surplus on redemption of common shares for cancellation (note 10 b) i))	(156,501)	(142,145)
Balance – End of year	3,195,131	2,491,291

e) Stock purchase plan

The Company established a new stock purchase plan effective April 1, 2009 for the benefit of all regular full-time and part-time employees who are Canadian residents. Directors are not eligible to participate in the plan. Under the terms of the plan, employees may elect to contribute through payroll deductions up to 5% of their annual income, up to a maximum of \$5,000 annually, for the purchase of common shares of the Company on the open market. Under the plan, the Company has committed to match employee contributions to the plan for a maximum contribution of \$1,000 per employee. Since July 27, 2009, employees must hold, for a period of 12 months, the portion of shares bought with the contribution of the Company. The purchase price of shares under the plan shall be equal to the market price of the Company's common shares on the purchase date. During the year ended March 31, 2011, the expense amounted to \$130,759 (2010 – \$147,191).

f) Stock option plan

The Company maintains a stock option plan. Under this plan, the maximum number of shares which may be issued pursuant to the exercise of options is 3,375,351, and the maximum number of shares which may be issued in the aggregate to any single individual may not exceed 5% of the number of common shares issued and outstanding at the date of grant. The exercise price of options granted under the plan, as determined by the Board of Directors, shall not be less than the market price of the Company's common shares at the date of grant, the market price being the closing price per share on the Toronto Stock Exchange on the last trading day immediately preceding the date of grant.

From June 2006 to March 2007, granted options vested over a period of three years by tranches of 30%, 30% and 40% becoming exercisable after 12, 24 and 36 months respectively following the date of grant, except for options granted to executives, which vested 12 months following the date of grant. Since March 2007, option grants vest over a period of three years with 100% becoming exercisable 36 months following the date of grant. The vesting period is determined by the Board of Directors. Options granted under the plan shall expire no later than five years after the date of grant.

The following table summarizes stock option activity under this plan:

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance – Beginning of year	594,900	8.92	702,800	9.01
Granted	-	-	-	-
Exercised	(37,500)	6.13	-	-
Forfeited	(314,900)	8.89	(60,900)	9.22
Expired	(85,000)	11.15	(47,000)	9.90
Balance – End of year	157,500	8.44	594,900	8.92

The following table summarizes information about stock options outstanding as at March 31, 2011:

Exercise price \$	Number of options	Options outstanding		Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
5.89	47,500	2.04	5.89	-	-
9.50 – 9.65	110,000	0.95	9.53	110,000	9.53
	<b>157,500</b>	<b>1.28</b>	<b>8.44</b>	<b>110,000</b>	<b>9.53</b>

During periods ended on March 31, 2011 and 2010, no stock options were granted by the Company.

g) Weighted average number of shares outstanding

The following table outlines the weighted average number of shares used in the calculation of the basic and diluted net earnings per share:

	2011	2010
<b>Weighted average number of shares outstanding</b>		
Basic	13,783,575	13,939,109
Dilutive effect of stock options	20,800	-
Diluted	<b>13,804,375</b>	13,939,109

Options to purchase 110,000 shares (2010 – 594,900) at a weighted average exercise price of \$9.53 per share (2010 – \$8.92) were outstanding at year-end but were not included in the calculation of diluted earnings per share because the options' exercise price was greater than the average price of the shares.

## 11 Technology

	2011 \$	2010 \$
Research and development expenses	8,680,218	8,976,317
Research and development tax credits	(611,631)	(307,282)
New Economy Tax Credits and Development of E-Business Tax Credit	(900,550)	(1,310,217)
Capitalized internally-developed software and websites	7,168,037 (32,311)	7,358,818 (204,605)
Amortization of internally-developed software and websites	7,135,726 285,031	7,154,213 420,245
	<b>7,420,757</b>	<b>7,574,458</b>

## 12 Commitments

Future minimum payments under long-term operating leases are as follows for fiscal years ending March 31:

	\$
2012	1,355,361
2013	1,296,688
2014	1,145,125
2015	616,150
2016	552,089
Thereafter	2,301,756

## 13 Income taxes

a) The provision for income taxes is composed of the following:

	2011 \$	2010 \$
Current	3,319,016	2,871,856
Future	876,023	1,318,838
	<b>4,195,039</b>	<b>4,190,694</b>

- b) The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate for the following reasons:

	2011 %	2010 %
Weighted average statutory income tax rate	29.5	30.7
Increase (decrease) resulting from		
Geographical distribution of taxable profits	1.2	0.4
Non-deductible stock-based compensation	(0.8)	1.3
Non-taxable foreign exchange gain	(0.5)	(3.3)
Non-deductible foreign exchange loss	0.3	4.5
Non-deductible expenses	(0.2)	1.6
Recognized benefit of tax losses	(1.7)	-
Effect of change in statutory rate on future income taxes	(0.3)	0.1
Effect of exchange revaluation of future income taxes	2.0	21.5
Prior year's tax adjustments and assessments	1.3	5.6
Unreorganized benefit of tax losses at the US state level	2.5	-
Effective tax rate	33.3	62.4

c) Future income tax balances are summarized as follows:

	2011 \$	2010 \$
Future income tax assets		
Fixed assets and intangible assets	-	380,870
Amounts not currently deductible	828,189	188,408
Capital losses	37,347	-
Net operating losses of Cdn subsidiaries	1,904,558	-
Net operating losses of US subsidiaries	14,841,222	15,230,757
	<b>17,611,316</b>	15,800,035
Valuation allowance	<b>(10,656,226)</b>	(10,244,338)
	<b>6,955,090</b>	5,555,697
Future income tax liabilities		
Fixed assets and intangible assets	(136,365)	-
Tax credits	(872,517)	(429,978)
Change in unrealized foreign exchange gains and losses	(262,382)	(175,901)
	<b>(1,271,264)</b>	(605,879)
Net future income tax assets	<b>5,683,826</b>	4,949,818
Presented as:		
Current asset	<b>443,468</b>	-
Long-term asset	<b>7,112,435</b>	5,684,486
Current liability	<b>(1,173,068)</b>	(605,880)
Long-term liability	<b>(699,009)</b>	(128,788)

d) As at March 31, 2011, the Company's US subsidiaries have accumulated net operating losses at the federal level of approximately US \$39,480,673 (CA\$38,367,318) which may be carried forward and used to reduce taxable income in future years. Such losses expire beginning in fiscal 2018 through fiscal 2030. A valuation allowance of approximately US\$27,662,205 (CA\$26,882,131) has been provided for pre-acquisition net operating losses that will more than likely not be realized. The available federal losses are US\$12,446,232 (CA\$12,095,248) and their limited portion is US\$9,995,975 (CA\$9,714,088) with a yearly limitation of US\$1,100,770 which can be carried forward if unused. The unlimited portion of federal losses is US\$2,450,257 (CA\$2,381,160).

In addition, the Company's US subsidiaries have accumulated net operating losses at the State level of approximately US\$44,049,622 (CA\$42,807,423) which may be carried forward and used to reduce taxable income in the future years. Such losses expire beginning in fiscal 2012 through fiscal 2028. A valuation allowance has been provided with respect to approximately US\$37,072,914 (CA\$36,027,458) of these net operating losses. The available losses for the state are US\$15,488,397 (CA\$15,051,624) and their limited portion is US\$7,997,391 (CA\$7,771,864) with a yearly limitation of US\$1,052,570 which can be carried forward if unused. The unlimited portion of state losses is US\$7,491,006 (CA\$7,279,760).

As at March 31, 2011, the Company's Canadian subsidiaries had accumulated non-capital losses for Canadian federal income tax of CA\$7,054,454 and CA\$6,970,245 for Canadian provincial income tax, which may be carried forward and used to reduce taxable income in the future years. Such losses expire beginning in fiscal 2014 through fiscal 2029. The Company's Canadian subsidiaries also have research and development expenditures carried forward of CA\$1,595,125 at the federal level and CA\$3,204,025 at the provincial level, which may be used for an indefinite period.

#### 14 Related party transactions

During the fiscal year, the Company paid a management fee of \$607,258 (2010 – \$588,167) to a corporate shareholder who has a significant influence over the Company. The transaction was in the normal course of business and was measured at the exchange amount, which is the amount of consideration established and agreed upon by the parties. As at March 31, 2011, an amount of \$200,000 is included in accounts payable and accrued liabilities (2010 - \$260,000).

#### 15 Changes in non-cash working capital items and other expenses

a) Changes in non-cash working capital items are as follows:

	2011 \$	2010 \$
Decrease (increase) in		
Accounts receivable	1,323,458	2,000,296
Income taxes receivable	-	758,026
Tax credits receivable	(984,246)	1,805,397
Prepaid expenses	(9,636)	127,225
Increase (decrease) in		
Accounts payable and accrued liabilities	(3,302,136)	192,442
Income taxes payable	65,820	389,945
Deferred revenues	978,282	(662,086)
	<b>(1,928,458)</b>	4,611,245

Notes to Consolidated Financial Statements  
March 31, 2011 and 2010

During the year ended March 31, 2010, the Company made an adjustment of \$226,685 to accounts payable and accrued liabilities due to a previous share buyback.

As at March 31, 2011, declared dividends for an amount of \$957,709 are included in accounts payables and accrued liabilities (2010 – nil).

b) Other expenses consists of the following:

	2011 \$	2010 \$
Interest income	253,244	86,908
Financial expenses	(218,767)	(194,047)
Foreign exchange loss	(465,672)	(2,519,426)
Other income (expenses)	6,719	(132,651)
	<b>(424,476)</b>	<b>(2,759,216)</b>

## 16 Segment information

The Company has only one reportable segment.

Geographical information is as follows:

	2011		2010	
	Revenues \$	Fixed assets, intangible assets, acquired intangible assets and goodwill \$	Revenues \$	Fixed assets, intangible assets, acquired intangible assets and goodwill \$
Canada	19,530,784	10,044,585	18,761,608	3,850,652
United States	20,702,813	26,524,185	20,500,012	27,084,640
Europe	2,013,629	-	2,232,833	-
Asia and other	4,829,135	27,065	4,230,959	48,325
	<b>47,076,361</b>	<b>36,595,835</b>	45,725,412	30,983,617

Revenues are attributed to geographic areas based on the location of the business places of the related customers.

## 17 Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth, to undertake selective acquisitions and to provide an appropriate return on investment to its shareholders. The Company's capital consists of long-term debt, shareholders' equity and deferred revenues, net of cash and cash equivalents and short-term investments.

The Company's primary uses of capital are to finance non-cash working capital requirements, capital expenditures, business acquisitions and payment of dividends. The Company has historically funded its needs from cash and short-term investments on hand, internally-generated cash flows and share issuances.

In order to adjust its capital structure, the Company may from time to time issue shares for cash or in connection with business acquisitions, repurchase shares or secure bank debt to fund capital expenditures or business acquisitions.

There were no changes in the Company's objectives for managing capital or the definition thereof as compared to the previous year.

The Company is not subject to any externally-imposed capital requirements and does not currently use any quantitative measures to monitor its capital.

## 18 Financial risk management

The Company's financial assets and financial liabilities expose it to the following risks: market risk, including foreign currency risk and interest rate risk, credit risk and liquidity risk. The main objective of the Company's risk management process is to ensure that risks are properly identified and addressed to minimize potential adverse effects on financial performance.

Risk management is carried out by the finance department, which identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

### Foreign currency risk

Foreign currency risk is related to the Company's business transactions denominated in a currency other than the Canadian dollar, primarily the US dollar. Foreign currency risk arises from sales and purchase transactions as well as recognized financial assets and financial liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign currency risk is to reduce fluctuations in performance. In order to reduce the potentially negative effects of a fluctuating Canadian dollar, the Company has entered into foreign currency forward contracts to stabilize anticipated future revenues denominated in US dollars. Foreign currency forward contracts may only be entered into for purposes of managing foreign currency risk and not for speculative purposes.

The balances in foreign currencies as at March 31, 2011 and 2010 are as follows:

	2011 US\$	2010 US\$
Cash and cash equivalents	9,889,107	5,716,734
Cash held for the benefit of others	3,081,552	3,964,453
Accounts receivable	3,199,548	2,652,773
Accounts payable and accrued liabilities	(4,413,674)	(6,513,616)
Net position in foreign currency	11,756,533	5,820,344
Net position in Canadian dollars	11,424,999	5,911,141

The following table provides the details of the arrangements used as hedging instruments:

				2011
Buy currency	Sell currency	Notional amount US\$	Weighted average rate	Maturity (fiscal year)
CA\$	US\$	16,140,000	1.0297	2012-2013
				2010
Buy currency	Sell currency	Notional amount US\$	Weighted average rate	Maturity (fiscal year)
CA\$	US\$	12,585,000	1.0639	2011-2012

Foreign currency forward contracts are contracts whereby the Company has the obligation to sell or buy US dollars at a fixed rate.

The fair value of these forward contracts of \$865,614 (US\$573,903) reflects the estimated amounts that the Company would have to receive to settle the contracts as at March 31, 2011, using relevant market rates. This financial instrument is classified under Level 2 of the fair value hierarchy. A foreign exchange gain before taxes of \$760,000 presently in the Accumulated other comprehensive income is expected to be reclassified to the statement of earnings within the next twelve months.

Taking into account the foreign currency forward contracts and assuming that all other variables remain constant, a strengthening of 5% of the Canadian dollar against the various currencies would have had the following impact (in Canadian dollars) on net earnings and other comprehensive income:

	2011 US\$	2010 US\$
Net earnings	(184,975)	(63,320)
Other comprehensive income	463,872	412,301

A weakening of 5% of the Canadian dollar against US currency would have had the opposite impact on net earnings and other comprehensive income.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents and investments earn interest at market rates.

As at March 31, 2011, the Company's exposure to interest rate risk is on its cash, and cash equivalents and investments whose interest rates vary from 0% to 1.20%. If interest rates as at March 31, 2011 had been 0.5% higher or 0.5% lower, the impact on net earnings would have been insignificant.

Financial assets and liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company is not subject to significant risk related to long-term debt, the long-term debt interest rate being comparable to those the Company could obtain. The Company is not subject to significant interest rate risk with respect to financial assets and financial liabilities due to their short-term maturity, and the amount of long-term liabilities is not significant.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, cash held for the benefit of others, investments and accounts receivable. The Company's cash and cash equivalents and cash held for the benefit of others are maintained at major financial institutions; therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company believes that its credit risk with respect to accounts receivable is limited based on past experience. The Company generally does not require collateral in connection with accounts receivable. Furthermore, its trade accounts receivable are not concentrated on any specific customers but rather are from a wide range of organizations. In addition, the Company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. The allowance for doubtful accounts is determined based on past experience of what is considered uncertain to be collectible after 60 days and 90 days, and inactive and restricted accounts are fully provided for.

The carrying value of the Company's trade accounts receivable is net of an allowance for doubtful accounts. Changes in the allowance during the year are as follows:

	2011 \$	2010 \$
Beginning of year	(537,455)	(518,619)
Credit (charge) for the year	161,592	(18,836)
End of year	(375,863)	(537,455)

As at March 31, 2011, the aging analysis of trade accounts receivable is as follows:

	\$
Current	1,798,514
Past due	
1–30 days	2,158,582
31–60 days	911,953
61–90 days	116,417
Over 90 days	150,875
Total accounts receivable	5,136,341

There is no impairment or amounts past due related to assets other than accounts receivable.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is currently not exposed to liquidity risk as it has sufficient cash and cash equivalents to sustain its operations and anticipated investing and financing activities. The Company has long-term debt with necessary payments of \$124,008 within the next twelve months. Information about long-term debt payments during future years is described in note 9. Other financial liabilities, which consist of accounts payable and accrued liabilities, are due within twelve months or less.

### **Financial instruments fair value**

All financial instruments recognized at fair value on the consolidated balance sheet must be classified in the following three fair value hierarchy levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices);
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents, cash held for the benefit of others and investments are carried at fair value. Those financial instruments are classified at level 1 of fair value evaluation hierarchy. Accounts receivable and accounts payable and accrued liabilities are financial instruments whose fair values approximate their carrying values because of their short term to maturity. The fair value of the long-term debt is not significantly different from its book value.

## **19 Comparative figures**

Certain figures for fiscal year 2010 have been reclassified in order to conform to the basis of presentation adopted in the current year.