Interim Condensed Consolidated Financial Statements
(Expressed in Canadian Dollars)

people
CORPORATION

Experience the Benefits of People

Three months ended November 30, 2013 and November 30, 2012
(Unaudited)

In accordance with National Instruments 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim condensed consolidated financial statements for the three months ended November 30, 2013.

# PEOPLE CORPORATION

Interim Condensed Consolidated Statements of Financial Position
(Unaudited and expressed in Canadian dollars)

| | Note | November 30, 2013 | August 31, 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 2,923,353 | $ 2,449,169 |
| Trade and other receivables | | 2,436,030 | 2,896,632 |
| Other current assets | | 353,144 | 388,383 |
| Total current assets | | 5,712,527 | 5,734,184 |
| Non-current assets: | | | |
| Property and equipment | 4 | 1,018,077 | 990,894 |
| Goodwill and intangible assets | 5 | 46,375,513 | 46,876,735 |
| Deferred tax asset | | 242,924 | 134,464 |
| Total non-current assets | | 47,636,514 | 48,002,093 |
| **Total assets** | | **$ 53,349,041** | **$ 53,736,277** |
| **Liabilities and shareholders' equity** | | | |
| Current liabilities: | | | |
| Trade payables, accrued and other liabilities | 6 | $ 3,545,376 | $ 4,522,278 |
| Deferred revenue | 7 | 3,975,296 | 3,792,348 |
| Income taxes payable | | 489,367 | 112,240 |
| Current portion of loans and borrowings | 10 | 4,178,208 | 3,804,077 |
| Total current liabilities | | 12,188,247 | 12,230,943 |
| Accrued and other liabilities | 6 | 1,016,804 | 993,070 |
| Deferred revenue | 7 | 72,927 | 89,299 |
| Non-controlling interest put options | 9 | 6,355,051 | 6,172,884 |
| Loans and borrowings | 10 | 14,561,898 | 15,445,258 |
| Deferred tax liability | | 4,503,745 | 4,628,201 |
| **Total liabilities** | | **38,698,672** | **39,559,655** |
| Shareholders' equity: | | | |
| Share capital | 11 | 12,079,664 | 12,024,732 |
| Contributed surplus | | 794,838 | 774,245 |
| Retained earnings | | 1,775,867 | 1,377,645 |
| **Total shareholders' equity** | | **14,650,369** | **14,176,622** |
| **Total liabilities and shareholders' equity** | | **$ 53,349,041** | **$ 53,736,277** |

**Commitments and contingencies (Note 15)**

The notes on pages 5 to 18 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited and expressed in Canadian dollars)

| | Note | Three months November 30, 2013 | Three months November 30, 2012 |
|---|---|---|---|
| **Revenue** | | | |
| Commissions | | $ 5,248,166 | $ 3,531,320 |
| Fees and other revenues | | 4,520,587 | 3,482,262 |
| | | 9,768,753 | 7,013,582 |
| **Operating expenses** | | | |
| Personnel | 18 | 5,878,786 | 4,493,993 |
| General and administrative | | 1,744,496 | 1,448,495 |
| Advertising and promotion | | 386,370 | 302,973 |
| | 18 | 8,009,652 | 6,245,461 |
| **Income before undernoted** | | **1,759,101** | **768,121** |
| Finance and other income (costs): | | | |
| Amortization of intangible assets | | (568,407) | (225,284) |
| Interest and other finance costs | 13 | (455,318) | (81,447) |
| Acquisition costs | | (35,540) | (104,446) |
| | | (1,059,265) | (411,177) |
| **Net income before income taxes** | | **699,836** | **356,944** |
| Income tax expense: | | | |
| Current | | 534,532 | 275,894 |
| Deferred | | (232,918) | (163,566) |
| | | 301,614 | 112,328 |
| **Net income and comprehensive income** | | **$ 398,222** | **$ 244,616** |
| Earnings per share | 11(c) | | |
| Basic | | $ 0.012 | 0.007 |
| Diluted | | $ 0.011 | 0.007 |

The notes on pages 5 to 18 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited and expressed in Canadian dollars)

| | | Share Capital | | Contributed Surplus | | Retained Earnings | | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, August 31, 2012 | $ | 11,990,956 | $ | 650,878 | $ | 1,117,536 | $ | 13,759,370 |
| Net Income and comprehensive income for the period | | - | | - | | 244,616 | | 244,616 |
| Transactions with shareholders, recorded directly in shareholders' equity | | | | | | | | |
| Share-based payments | | - | | 37,789 | | - | | 37,789 |
| Total transactions with shareholders | $ | - | $ | 37,789 | $ | 244,616 | $ | 282,405 |
| **Balance, November 30, 2012** | **$** | **11,990,956** | **$** | **688,667** | **$** | **1,362,152** | **$** | **14,041,775** |

| | | Share Capital | | Contributed Surplus | | Retained Earnings | | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, August 31, 2013 | $ | 12,024,732 | $ | 774,245 | $ | 1,377,645 | $ | 14,176,622 |
| Net Income and comprehensive income for the period | | - | | - | | 398,222 | | 398,222 |
| Transactions with shareholders, recorded directly in shareholders' equity | | | | | | | | |
| Exercise of stock options | | 54,932 | | (19,701) | | - | | 35,231 |
| Share-based payments | | - | | 40,294 | | - | | 40,294 |
| Total transactions with shareholders | | 54,932 | | 20,593 | | 398,222 | | 473,747 |
| **Balance, November 30, 2013** | **$** | **12,079,664** | **$** | **794,838** | **$** | **1,775,867** | **$** | **14,650,369** |

The notes on pages 5 to 18 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited and expressed in Canadian dollars)

| | Note | Three months November 30, 2013 | Three months November 30, 2012 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income for the period | | $ 398,222 | $ 244,616 |
| Adjustments for: | | | |
| Depreciation | 4 | 50,838 | 86,419 |
| Amortization of intangible assets | 5 | 568,407 | 225,284 |
| Share-based compensation | | 40,294 | 37,789 |
| Non-controlling interest put option fair value adjustment | | 182,167 | - |
| Accretive interest expense | | 99,391 | - |
| Deferred tax expense (recovery) | | (232,918) | (163,566) |
| Net cash from operations | | 1,106,401 | 430,542 |
| Change in the following: | | | |
| Trade and other receivables | | 460,602 | 818,955 |
| Other current assets | | 35,239 | 56,206 |
| Trade payables, accrued and other liabilities | | (981,109) | (593,468) |
| Deferred revenue | | 166,576 | 196,313 |
| Deferred tax liability | | 377,127 | (39,006) |
| Net cash from (used by) working capital items | | 58,435 | 439,000 |
| **Net cash from operating activities** | | **1,164,836** | **869,542** |
| **Investing activities** | | | |
| Acquisition of subsidiary, net of cash and cash equivalents acquired | | - | (633,957) |
| Acquisition of property and equipment | | (78,023) | (73,572) |
| Acquisition of intangible assets | | (67,186) | (23,784) |
| **Net cash used in investing activities** | | **(145,209)** | **(731,313)** |
| **Financing activities** | | | |
| Proceeds from exercise of stock options | | 35,231 | - |
| Repayment of loans and borrowings | | (580,674) | (260,196) |
| **Net cash used in financing activities** | | **(545,443)** | **(260,196)** |
| Net increase (decrease) in cash and cash equivalents | | 474,184 | (121,967) |
| Cash and cash equivalents at beginning of the period | | 2,449,169 | 3,199,643 |
| **Cash and cash equivalents at the end of the period** | | **$ 2,923,353** | **$ 3,077,676** |

The notes on pages 5 to 18 are an integral part of these consolidated financial statements.

## 1. Reporting entity:

People Corporation, (the "Company") was incorporated under the Ontario Business Corporations Act on July 5, 2006. The Company is a public company listed on the TSX Venture Exchange (the "TSX-V"), trading under the "PEO" symbol and is domiciled in Canada. The address of the Company's head office is 360 Main Street, Suite 1800, Winnipeg, Manitoba, Canada and the Company's registered office is 180 Bay Street, Suite 4400, Toronto, Ontario, Canada. These interim condensed consolidated financial statements of the Company comprise accounts of the Company and its subsidiaries. The Company is primarily involved in the delivery of employee group benefit consulting, pension consulting and third-party benefits administration services, as well as, recruiting services, strategic human resources consulting and career management services to help companies recruit, retain and reward employees (Note 16).

These consolidated financial statements were approved by the Board of Directors and authorized for issue on January 22, 2014.

## 2. Basis of presentation:

These interim condensed consolidated financial statements for the three months ended November 30, 2013 and November 30, 2012 have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended August 31, 2013 prepared in accordance with IFRS.

## 3. Significant accounting policies:

Except as described below, the accounting policies applied by the Company in these interim condensed consolidated financial statements are consistent with those applied by the Company in its consolidated financial statements as at and for the year ended August 31, 2013.

Changes in accounting policies:

The Company has adopted the following new and revised standards, along with any consequential amendments, effective September 1, 2013. These changes were made in accordance with the applicable transitional provisions.

### (a) IFRS 10, *Consolidated Financial Statements* ("IFRS 10"):

IFRS 10 replaces SIC 12, *Consolidation Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company has assessed its consolidation conclusions on September 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

### (b) IFRS 11, *Joint Arrangements* ("IFRS 11"):

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities Non-monetary Contributions by Venturers*. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas, for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. The Company is not a party to any joint arrangements and has determined that adoption of IFRS 11 did not result in a material impact on the results or the financial position of the Company.

**(c) IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12")**

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles (“Interests in Other Entities”). The standard introduces additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The Company is not a party to any Interests in Other Entities and has determined that adoption of IFRS 12 did not result in a material impact on the results or the financial position of the Company.

**(d) IFRS 13, *Fair Value Measurement* ("IFRS 13")**

IFRS 13 is a comprehensive standard that defines fair value, sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. This new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The Company adopted IFRS 13 on September 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at September 1, 2013. The standard also establishes disclosures about fair value measurement. The Company has included in Note 14 new financial instrument fair value disclosures required by IFRS 13.

Any subsequent changes to IFRSs that become effective and are adopted for the August 31, 2014 consolidated annual financial statements could result in revisions to accounting policies applied in these consolidate interim financial statements and, if applicable, the opening balance sheet and reconciliations

**New Standards and interpretations not yet adopted**

The Company has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

**IFRS 9, “Financial Instruments”**

The IASB issued IFRS 9, “Financial Instruments” to replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash and cash equivalents flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39. In November 2013, the IASB has removed the mandatory effective date for IFRS 9. The new date will be determined when IFRS 9 is closer to completion.

The Company anticipates that the application of IFRS 9 may have impact on the amounts reported in respect of the Company’s financial assets. However, it is not yet practicable to provide a reasonable estimate of that effect.

(Unaudited and expressed in Canadian dollars)

### 4. Property and equipment:

| | Note | Leasehold improvements | Furniture and fixtures | Computer equipment | Computer software | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance, August 31, 2012 | | 463,312 | 725,323 | 1,016,047 | 419,290 | **2,623,972** |
| Additions | | 70,703 | 11,257 | 179,552 | 133,958 | **395,470** |
| Disposals | | - | (8,376) | - | - | **(8,376)** |
| Acquisition through business combination | | 6,527 | 54,013 | 23,319 | 54,204 | **138,063** |
| Balance, August 31, 2013 | | 540,542 | 782,217 | 1,218,918 | 607,452 | **3,149,129** |
| Additions | | 7,281 | 5,097 | 14,038 | 51,607 | **78,023** |
| Disposals | | - | - | - | - | **-** |
| Acquisition through business combination | | - | - | - | - | **-** |
| Balance, November 30, 2013 | | 547,823 | 787,314 | 1,232,956 | 659,059 | **3,227,152** |

| | Note | Leasehold improvements | Furniture and fixtures | Computer equipment | Computer software | Total |
|---|---|---|---|---|---|---|
| Depreciation and impairment losses | | | | | | |
| Balance, August 31, 2012 | | (305,647) | (489,678) | (695,343) | (292,631) | **(1,783,299)** |
| Depreciation for the period | | (88,473) | (53,095) | (127,525) | (110,874) | **(379,967)** |
| Disposals | | - | (5,031) | - | - | **(5,031)** |
| Balance, August 31, 2013 | | $ (394,120) | $ (537,742) | $ (822,868) | $ (403,505) | **$ (2,158,235)** |
| Depreciation for the period | | (7,111) | (8,215) | (19,272) | (16,240) | **(50,838)** |
| Disposals | | - | - | - | - | **-** |
| Balance, November 30, 2013 | | (401,231) | (545,957) | (842,140) | (419,745) | **(2,209,073)** |
| Carrying amounts | | | | | | |
| Balance, August 31, 2013 | | $ 146,422 | $ 244,475 | $ 396,050 | $ 203,947 | **$ 990,894** |
| Balance, November 30, 2013 | | $ 146,592 | $ 241,356 | $ 390,815 | $ 239,314 | **$ 1,018,077** |

(Unaudited and expressed in Canadian dollars)

### 5. Goodwill and intangible assets:

| | Note | Goodwill | Customer relationships | Customer contracts | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance, August 31, 2012 | | $ 13,547,835 | $ 5,961,351 | $ 3,000,000 | **$ 22,509,186** |
| Additions | | 26,200 | 38,001 | 134,008 | **198,209** |
| Acquisition through business combination | | 15,978,523 | 13,644,000 | - | **29,622,523** |
| Balance, August 31, 2013 | | 29,552,558 | 19,643,352 | 3,134,008 | **52,329,918** |
| Additions | | - | - | 67,186 | **67,186** |
| Acquisition through business combination | | - | - | - | **-** |
| Balance, November 30, 2013 | | $ 29,552,558 | $ 19,643,352 | $ 3,201,194 | **$ 52,397,104** |
| Amortization and impairment losses | | | | | |
| Balance, September 1, 2012 | | $ - | $ (2,661,052) | $ (1,550,000) | **$ (4,211,052)** |
| Amortization for the period | | - | (938,759) | (303,372) | **(1,242,131)** |
| Balance, August 31, 2013 | | - | (3,599,811) | (1,853,372) | **(5,453,183)** |
| Amortization for the period | | - | (491,384) | (77,023) | **(568,407)** |
| Balance, November 30, 2013 | | $ - | $ (4,091,195) | $ (1,930,395) | **$ (6,021,590)** |
| Carrying amounts | | | | | |
| Balance, August 31, 2013 | | $ 29,552,558 | $ 16,043,541 | $ 1,280,636 | **$ 46,876,735** |
| Balance, November 30, 2013 | | $ 29,552,558 | $ 15,552,157 | $ 1,270,798 | **$ 46,375,513** |

### 6. Trade payables, accrued and other liabilities:

The Company had the following trade payables, accrued and other liabilities.

| | **November 30, 2013** | **August 31, 2013** |
|---|---|---|
| Trade payables and other liabilities | $ 3,528,507 | $ 4,507,749 |
| Contingent consideration | 978,151 | 950,204 |
| Deferred lease inducements | 55,522 | 57,395 |
| | $ 4,562,180 | $ 5,515,348 |
| Less current portion of trade payables, accrued and other liabilities | 3,545,376 | 4,522,278 |
| Long-term portion of accrued and other liabilities | 1,016,804 | 993,070 |
| Total long-term Trade payables | **$ 1,016,804** | **$ 993,070** |

(Unaudited and expressed in Canadian dollars)

The following table indicates the changes in the contingent consideration related to acquisition during the three months ended November 30, 2013.

| | November 30, 2013 | November 30, 2012 |
|---|---|---|
| Balance, August 31, 2013 | $ 950,204 | $ - |
| Accretion on future consideration related to acquisition | 27,947 | - |
| Balance November 30, 2013 | $ 978,151 | $ - |

**7. Deferred revenue:**

Deferred revenue is a non-cash liability which represents the excess of retainer amounts billed over costs incurred and revenue earned on service contracts. The Company had the following deferred revenue.

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| Fees received in advance | $ 4,048,223 | $ 3,881,647 |
| less: current portion of deferred revenue | 3,975,296 | 3,792,348 |
| Long-term portion of deferred revenue | $ 72,927 | $ 89,299 |

**8. Insurance premium liabilities and related cash and cash equivalents:**

In its capacity as third-party benefits administrator, the Company collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. These are considered flow-through items for the Company and, as such, the cash and cash equivalents and investment balances relating to these liabilities are deducted from the related liability in the consolidated balance sheets. The Company had the following amounts held in accounts segregated from the Company's operating funds for insurance premium liabilities.

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| Payable to carriers and insured individuals or groups | $ 14,861,658 | $ 14,558,743 |
| less: related cash and cash equivalents balances | 14,861,658 | 14,558,743 |
| | $ - | $ - |

**9. Non-controlling interest Put Options:**

In connection with the acquisitions of Bencom Financial Service Group Inc. ("Bencom") and the Hamilton + Partners group of companies ("H+P"), the Company entered into various agreements whereby the vendors hold an economic interest in Bencom and H+P respectively through the ongoing right to earn performance-based commissions and fees. In addition, the vendors hold ongoing ownership through non-voting, non-dividend earning special shares ("Special Shares"). The Company has the right to purchase the Special Shares ("Call Option") and the vendors have the right to require the Company to purchase the Special Shares ("Put Option") at certain dates in the future, subject to certain vesting and other conditions. On the effective date of exercise of the Call Option or the Put Option, the vendor's right to earn performance based commissions and fees will be terminated.

(Unaudited and expressed in Canadian dollars)

The liability recognized in connection with the Bencom Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of Bencom, the estimated future exercise dates and other factors. The fair value of the liability associated with the Bencom Put Options as at November 30, 2013 was $779,506 (August 31, 2013 - 756,640). The Bencom Put Option is restricted during the first three years of the agreement but then may be exercisable at any time by the non-controlling shareholder(s).

The liability recognized in connection with the H+P Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of H+P, the estimated future exercise dates and other factors. The fair value of the liability associated with the H+P Put Option as at August 31, 2013 was $5,575,546 (August 31, 2013 - 5,416,245). The H+P Put Option is restricted during the first three years of the agreement but then may be exercisable at any time by the non-controlling shareholder(s).

The fair value of the liability associated with the non-controlling put options is determined by discounting the estimated future payment obligation at each reporting date, and changes in fair value of the estimated liability in future periods will be recorded in finance costs in subsequent interim condensed consolidated statements of comprehensive income. For the three months ended November 30, 2013 the Company recorded an adjustment to the non-controlling interest put options amounting to $182,167 (2012 – *nil*) to the change in estimated fair value of the liability.

## 10. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate and liquidity risk, see .

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| **Term loans** | | |
| **(a)** A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of $90,000 plus accrued interest. The loan matures May 31, 2018 | 1,620,000 | 1,710,000 |
| **(b)** A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of principal of $133,929 plus accrued interest. The loan matures December 31, 2019. | 3,348,214 | 3,482,143 |
| **(c)** A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of principle of $335,714 plus accrued interest. The loan matures July 8, 2020. | 9,064,286 | 9,400,000 |
| **Total term loans** | 14,032,500 | 14,592,143 |
| **Vendor-take-back loans** | | |
| **(d)** A vendor-take-back loan bearing no interest per annum, unsecured, repayable in monthly installments of $1,933. The loan matured on September 1, 2013. | - | 899 |

(Unaudited and expressed in Canadian dollars)

| | | | |
|---|---|---|---|
| **(e)** | A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in two annual instalments of $350,000. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on October 1, 2014. | 680,617 | 672,019 |
| **(f)** | A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in three annual instalments of $181,031. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on December 1, 2015. | 528,866 | 520,386 |
| **(g)** | A vendor-take-back loan bearing no interest per annum, unsecured, payable in monthly instalments of $5,224. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on August 1, 2017. | 187,578 | 200,109 |
| **(h)** | A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in three annual instalments of $1,201,667. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on July 9, 2016. | 3,272,064 | 3,220,838 |
| **Total vendor-take-back loans** | | 4,669,125 | 4,614,251 |
| **Finance lease liabilities** | | | |
| **(i)** | A finance lease repayable in monthly installments of $939 and secured by the assets to which the obligation relates. The lease expires August 1, 2015 and includes implicit interest rates ranging from 8.65%. | 16,140 | 18,254 |
| **(j)** | A finance lease repayable in monthly installments of $1,074 and secured by the assets to which the obligation relates. The lease expires December 1, 2015 and includes implicit interest rates ranging from 11.28%. | 22,341 | 24,687 |
| **Total finance lease liabilities** | | 38,481 | 42,941 |
| | | 18,740,106 | 19,249,335 |
| Less: current portion | | | |
| | Term loans | 2,238,571 | 2,238,571 |
| | Vendor take-back loans | 1,920,640 | 1,546,978 |
| | Finance lease liabilities | 18,997 | 18,528 |
| | | $ 4,178,208 | $ 3,804,077 |
| | | $ 14,561,898 | $ 15,445,258 |

(Unaudited and expressed in Canadian dollars)

The Company is a party to a Credit Facility Agreement with the Canadian Imperial Bank of Commerce which includes the following components:

1. A $2 million operating line of credit. As at November 30, 2013, the Company had not utilized this facility (August 31, 2013 - nil).
2. A $20 million term revolving acquisition credit facility to fund future acquisitions. The acquisition credit facility is available via loans bearing interest at prime plus 1.5% or via bankers' acceptances bearing periodically fixed interest plus a stamping fee of 2.5% annually. Each draw on the facility will be treated as a separate loan repayable over a period of up to seven years. As at November 30, 2013, the balance owing on this facility was equal to $12,412,500 (August 31, 2013 - $12,882,143); and
3. A $2.5 million installment loan which was utilized to refinance certain long-term debt facilities and vendor-take-back debt of the Company. The installment loan is being repaid in quarterly installments over a seven year period and bears interest at prime plus 1.5%. As at November 30, 2013, the balance owing on this facility was equal to $1,620,000 (August 31, 2013 - $1,710,000).

The facility is secured by a general security agreement over the assets of the Company and its subsidiaries and is subject to covenants .

Finance lease liabilities are payable as follows:

| | November 30, 2013 | | | November 30, 2012 | | |
|---|---|---|---|---|---|---|
| | **Future minimum lease payments** | **Interest** | **PV of minimum lease payments** | **Future minimum lease payments** | **Interest** | **PV of minimum lease payments** |
| 1-12 months | $ 22,055 | $ 3,058 | $ 18,997 | $ 17,190 | $ 4,866 | $ 17,190 |
| 13-60 months | 20,569 | 1,085 | 19,484 | 42,625 | 4,144 | 38,481 |
| | $ 42,624 | $ 4,143 | $ 38,481 | $ 59,815 | $ 9,010 | $ 55,671 |

(Unaudited and expressed in Canadian dollars)

## 11. Share capital

### (a) Authorized

The Company has authorized share capital of an unlimited number of common voting shares.

### (b) Shares issued and outstanding

Shares issued and outstanding are as follows:

| | Number of Common voting shares | Amount |
|---|---|---|
| Balance, August 31, 2012 | 32,970,527 | $ 11,990,956 |
| Exercise of stock options | 56,666 | 33,776 |
| Balance, August 31, 2013 | 33,027,193 | $ 12,024,732 |
| Exercise of stock options | 104,943 | 54,932 |
| Balance, November 30, 2013 | 33,132,136 | $ 12,079,664 |

### (c) Earnings per share

Basic earnings per share was calculated by dividing profit attributable to common shares by the sum of the weighted average number of common shares outstanding during the year.

Diluted earnings per share was calculated using the basic calculation described above, and adjusting for the potentially dilutive effect of total number of additional common shares that would have been issued by the Company under its Stock option plan.

The following details the earnings per share, basic and diluted, calculations for the three months ended November 30, 2013 and November 30, 2012:

| | November 30, 2013 | November 30, 2012 |
|---|---|---|
| Net income attributable to common shares (basic and diluted) | $ 398,222 | $ 244,616 |
| Weighted average number of common shares (basic) | 33,096,826 | 32,970,527 |
| add: Dilutive effect of stock options | 2,192,934 | 82,894 |
| Weighted average number of common shares (diluted) | 35,289,760 | 33,053,421 |
| Earnings per share (basic) | $ 0.012 | $ 0.007 |
| Earnings per share (diluted) | $ 0.011 | $ 0.007 |

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

(Unaudited and expressed in Canadian dollars)

**12. Share-based payments**

On February 23, 2011, at the Annual General Meeting of the Shareholders, the Shareholders re-approved and amended the Stock Option Plan and approved the Company's Employee Share Ownership Plan. Under the terms of the plans, the number of shares issued under the Stock Option Plan and the Employee Share Ownership Plan, as well as all other security based compensation agreements combined cannot exceed 15%, or 4,969,820, of the Company's issued and outstanding shares.

**(a) Employee share ownership plan**

The Company has an employee share ownership plan ("ESOP") whereby both employee and Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed as incurred as there is no vesting period. Under the plan, the Company matches $1 for every $4 contributed by employee contributions of between 2% and 5% of annual base remuneration. Contribution under ESOP began effective November 1, 2011.

At November 30, 2013, there were 135 participants (November 30, 2012 – *89*) in the plan. The total number of shares purchased during the three months ended November 30, 2013 on behalf of participants, including the Company contribution, was 135,312 shares (November 30, 2012 – 184,687 shares). During the three months ended November 30, 2013, the Company's matching contributions totalled 27,055 shares (November 30, 2012 – 46,168 shares).

**(b) Stock option plan**

Options may be granted to directors, officers, employees and service providers of the Company on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan or by security regulators. Options shall not be granted for a term exceeding five years.

Changes in the number of options outstanding during the three months ended November 30, 2013 and November 30, 2012, are as follows:

| | November 30, 2013 | | November 30, 2012 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Balance, beginning of year | 3,129,809 | $ 0.37 | 2,763,142 | $ 0.34 |
| Granted | - | - | 125,000 | 0.37 |
| Exercised | (104,943) | 0.34 | - | - |
| Forfeited and expired | (2,500) | 0.25 | - | - |
| Balance, end of year | 3,022,366 | $ 0.37 | 2,888,142 | $ 0.34 |
| Options exercisable, end of year | 2,111,528 | | 1,819,805 | |

(Unaudited and expressed in Canadian dollars)

Options outstanding at November 30, 2013 consist of the following:

| Range of exercise prices | Outstanding number | Weighted average remaining contractual life | Weighted average exercise price | Exercisable number |
|---|---|---|---|---|
| $ 0.25 - $ 0.40 | 2,172,366 | 1.10 years | $0.32 | 1,944,862 |
| $ 0.41 - $ 0.50 | 500,000 | 3.23 years | $0.43 | 166,666 |
| $ 0.51 - $ 0.64 | 350,000 | 4.42 years | $0.63 | - |
| $ 0.25 - $ 0.64 | 3,022,366 | 2.04 years | $0.34 | 2,111,528 |

The share option compensation expense for options issued to employees was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **November 30, 2013** | **November 30, 2012** |
|---|---|---|
| Expected option life | - years | 5.00 years |
| Risk-free interest rate | -% | 1.36% |
| Dividend yield | nil | nil |
| Forfeiture rate | -% | 6.67% |
| Volatility factor of expected market price of the Company's shares | -% | 89.78% |

For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the period of service. For awards subject to graded vesting, each installment is treated as a separate award with separate fair value and a separate vesting period. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on the five-year share price history. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

(Unaudited and expressed in Canadian dollars)

## 13. Interest and other finance costs:

The Company's Interest and other finance costs for the three months ended November 30, 2013 and November 30, 2012 were comprised of the following:

| | Note | November 30, 2013 | November 30, 2012 |
|---|---|---|---|
| Interest on long-term debt | 10 | 169,508 | 81,259 |
| Interest income | | (757) | (1,106) |
| Other finance costs | | 5,009 | 1,294 |
| Non-cash finance costs | | | |
| Accretion expense on vendor-take-back loans | 10 | $ 71,444 | $ - |
| Accretion on contingent consideration | 6 | 27,947 | - |
| Non-controlling interest put option adjustment | 9 | 182,167 | - |
| | | 281,558 | - |
| | | $ 455,318 | $ 81,447 |

Accretion expense on vendor-take-back loans represents the implied interest cost related to non-interest bearing vendor take-back-loans initially recognized on a discounted basis (Note 10). Accretion on contingent consideration is a charge to the Company's net income in the period to recognize the change in discounted fair value of the contingent consideration liability (Note 6).

## 14. Financial instruments:

### Fair Value

The Company's carrying value of cash and cash equivalents, trade and other receivables, Trade payables, accrued and other liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

The carrying value of the long term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at November 30, 2013:

| | |
|---|---|
| Cash and cash equivalents | Fair value through profit or loss |
| Trade and other receivable | Loans and receivables |
| Accounts payable, accrued and other liabilities | Other financial liabilities |
| Loans and borrowings | Other financial liabilities |
| Non-controlling interest put option | Fair value through profit or loss |

The different levels of fair value hierarchy, which require the Company to maximize the use of observable inputs when measuring fair value are defined as follows:

**Level 1** Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

(Unaudited and expressed in Canadian dollars)

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value through profit or loss financial instruments are measured at fair value using Level 1 inputs for cash and cash equivalents and Level 3 inputs for non-controlling interest put option.

## 15. Commitments and contingencies:

### (a) Contractual obligations

The Company leases premises and various office equipment under agreements which expire from December 2012 to February 2018. Future minimum lease payments as at November 30, 2013 are as follows:

| | | |
|---|---|---|
| Next 12 months | $ | 940,291 |
| 13 - 24 months | | 798,673 |
| 25 - 36 months | | 589,502 |
| 37 - 48 months | | 571,406 |
| 49 - 60 months | | 180,358 |
| | $ | 3,080,230 |

### (b) Contingencies

In the ordinary course of operating the Company's business it may from time to time be subject to various claims or possible claims. Management is of the position that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain and management's view of these matters may change in the future.

## 16. Operating segments:

The Company offers human resource consulting, recruitment services, pension advisory services, group benefits Insurance, benefits and pension administration. As at November 30, 2013, on the basis of type of services provided and in accordance with IFRS 8, *Operating Segments*, the Company was represented by and had one reportable segment. The Company operates exclusively within Canada.

## 17. Related parties:

### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors and Officers are key management personnel. In addition to their salaries, the Company also provides non-cash and cash equivalents benefits and participation in the Employee Share Ownership Plan (Note 12(a)) and Stock Option Plan (Note 12(b)).

The following table details the compensation paid to key management personnel during the three months ended November 30, 2013 and 2012:

(Unaudited and expressed in Canadian dollars)

| | November 30, 2013 | | November 30, 2012 | |
|---|---|---|---|---|
| Salaries, fees and short-term employee benefits | $ | 331,685 | $ | 332,244 |
| Short-term benefits and insurance premiums | | 5,265 | | 4,612 |
| Share-based payments | | 35,122 | | 31,234 |
| | $ | 372,072 | $ | 368,090 |

**(b) Key management personnel and director transactions**

Directors and key management personnel own 30.89% (August 31, 2013 - 30.66%) percent of the voting shares of the Company.

## 18. Expenses by nature:

The Company's operating expenses for the three months ended November 30, 2013 and November 30, 2012 were comprised of the following:

| | November 30, 2013 | | November 30, 2012 | |
|---|---|---|---|---|
| Personnel | | | | |
| Wages, salaries and commissions | $ | 4,996,863 | $ | 3,814,534 |
| Bonuses | | 432,894 | | 321,993 |
| Short-term benefits and insurance premiums | | 408,735 | | 319,677 |
| Share-based payments | | 40,294 | | 37,789 |
| | | 5,878,786 | | 4,493,993 |
| Advertising and sponsorships | | 141,713 | | 129,210 |
| Automobile | | 78,111 | | 60,200 |
| Administration fees | | 452,091 | | 328,473 |
| Depreciation of property and equipment | | 50,838 | | 86,419 |
| Occupancy | | 520,637 | | 348,657 |
| Office supplies and communication | | 354,381 | | 287,131 |
| Other | | 109,042 | | 108,204 |
| Professional fees | | 123,968 | | 138,517 |
| Public company costs | | 51,110 | | 75,867 |
| Travel | | 248,975 | | 188,790 |
| | $ | 8,009,652 | $ | 6,245,461 |

Compensation and benefits includes salaries, wages, management fees and commissions.

Certain employees of the Company participate in a defined contribution pension plan. Contributions to the plan by the Company totaled $6,582 for the three months ended November 30, 2013 (2012 – $6,671). The amount is included in the salaries, wages and benefits expense in these interim condensed consolidated financial statements.