

**Automated Benefits Corp.**  
**Management's Discussion and Analysis**  
**June 27, 2011**

Automated Benefits Corp. (the "Corporation") is a holding company with its head office located in Toronto, Ontario and is dedicated to acquiring companies which provide software applications to the insurance industry. Its wholly-owned subsidiary, Automated Benefits Inc. ("Adjudicare"), is also located in Toronto, Ontario and provides claims management software for health and dental plans in addition to other insurance products for employer groups. The Corporation's other wholly-owned subsidiary, Symbility Solutions Inc. ("Symbility Canada") and its wholly-owned subsidiary, Symbility Solutions (U.S.A.) Inc. ("Symbility USA") (Symbility Canada and Symbility USA are jointly referred to on a consolidated basis as "Symbility") are software development companies focused on mobile communication and efficiency tools for the North American and European property and casualty insurance industry. Symbility has offices in Toronto, Ontario and Montreal, Québec. Symbility USA has its registered office in the State of Delaware.

The following Management's Discussion and Analysis ("MD&A") of the Corporation should be read in conjunction with the interim consolidated financial statements and accompanying notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS") for the three months period ended March 31, 2011. All amounts are expressed in Canadian dollars unless otherwise noted. Any reference to the Corporation specifically relates to the parent company as separate from its operating subsidiaries. All operating results refer to the consolidated financials of the parent company and its subsidiaries unless specifically noted otherwise. Additional information about the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A contains certain information that may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, research and development activities, projected costs and capital expenditures, financial results, the ability to raise capital, taxes and plans and objectives of or involving the Corporation.

Without limitation, information regarding the Corporation's future cost structure, future sales and marketing activities, increased penetration into certain markets through strategic partnerships, the impact of the introduction of new products, the ability of new management to leverage sales opportunities, increase in the size of certain markets, expected increases in revenues, expected revenues from certain contracts, customer rollout plans for specific products, expected increase in gross margins, Adjudicare software product placement targets and Symbility product placement targets is forward-looking information.

Aside from specific commentary in sections of this document that provide detail, management has made the following material assumptions in providing forward-looking information:

- The markets for the software products sold by its subsidiaries do not materially change or decline in size.
- The Corporation's competitors do not significantly change their business model making it more challenging for the Corporation to succeed.
- The Corporation does not require significant financing to execute on its business plans.

- The Corporation is able to continue to grow its revenue without a significant increase in its cost structure.
- The software sold by the Corporation's subsidiaries continues to meet the service level obligations contained within the contracts with their customers.
- The Canadian dollar does not strengthen significantly creating a material impact from foreign exchange associated with revenues from its U.S. and European customer contracts.
- The Corporation has two customers that represented more than 10% of generating revenue at similar or higher levels in 2010 and management has assumed that these contracts continue generating revenue at similar levels in 2011.

Forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results, events or developments to be materially different from what we currently expect. These risks include, among others, product development risk, potential product liability, risks related to third party contractual performance, customer demand, competition and the risks posed by potential technological advances, risks relating to the protection of the Corporation's intellectual property, risks relating to fluctuation in foreign currency exchange rates, and exposure to increased credit and liquidity risk. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Corporation may elect to, the Corporation does not undertake to update this information at any particular time unless required by law. Unless otherwise indicated, this MD&A was prepared by management from information available up to June 27, 2011.

### **Basis of presentation**

The Corporation has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), as its basis of financial reporting commencing with the interim financial statements for the quarter ended March 31, 2011. The Corporation's transition date to IFRS was January 1, 2010.

The financial information provided in this MD&A has been prepared in accordance with IFRS. The comparative figures have also been reported under IFRS. While the first-time adoption of IFRS did not have an impact on the Corporation's cash flows, there has been some impact on its consolidated statements of financial position and statements of income (loss) and comprehensive income (loss), which are discussed further in the IFRS section beginning on page 13.

### **Overall Performance**

The three month period ending March 31, 2011 was another strong quarter for the Corporation. Consolidated revenues grew approximately 33% while operating expenses increased only 8% as compared to the prior year which resulted in an income of approximately \$57,000 for the period. Adjusted EBITDA<sup>1</sup> was \$104,000 for the three months period ending March 31, 2011 and the Corporation ended with a cash balance of approximately \$1,008,646.

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<sup>1</sup> In addition to disclosing results in accordance with IFRS, the Corporation also provides supplementary non-IFRS measures as a method of evaluating the Corporation's performance. Management uses Adjusted EBITDA as a measure of enterprise-wide performance. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation and amortization, stock based compensation, restructuring costs, impairment charges, and other non-recurring gains or losses. Management believes Adjusted EBITDA is a useful measure that facilitates period-to-period operating comparisons. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation of as a substitute for net earnings (loss) prepared in accordance with IFRS. Please refer to page 9.

## **Operating Segments**

### *Adjudicare*

#### **Overview of The Three Month Period Ended March 31, 2011**

##### **Product Strategy**

We are committed to continuing to develop product offerings based on feedback from our strategic partners.

In the first quarter of Fiscal Year (“FY”) 2011, we launched a new Online Claims Access feature which is an extension of our web-based product strategy. This new product enables our partners to offer a branded web-portal to their group benefit clients, which allows employees to view their personal information, claims and payment history for themselves and their dependents. This improved visibility is expected to enhance the employee experience, reduce the number of inquiries to our partners, and facilitate the use of Electronic Fund Transfer to pay claims online instead of by mail. This will also enable our strategic customers to be more competitive when bidding on groups against insurance companies who provide online claims access as a standard offering.

Management believes that by continuing to develop leading edge technology, we can leverage these enhanced product offerings in 2011 to grow our business with our existing customers and attract new Third Party Administrators (“TPAs”) to join us as channel partners.

##### **Strategic Customers**

Management continues to target strategic partners who value the control of the claims adjudication and payment process that our software provides. As a result of these efforts, revenue grew approximately 21% as compared to the first quarter of FY 2010, which represents our highest growth rate in several years.

The majority of this growth came as a result of the acceleration of the rollout of the Sirius Benefit Plans (“Sirius”) block of business onto the system. Management has worked very closely with the team at Sirius to migrate their business from a third party ASO provider of claims adjudication to move this process fully in-house.

##### **Strategic Vendors**

Express Scripts Inc. (“ESI”) is the critical strategic vendor relationship to Adjudicare. ESI provides Adjudicare with Pharmacy Benefits Management (“PBM”) services, which enable employees to use electronic drug cards at the pharmacy to pay for drug claims under their group benefits plan. These claims are then processed through Adjudicare’s adjudication software along with other non-electronic claims to ensure seamless administration of the employee’s health and dental plan by our TPA and insurance broker customers.

In the fall of 2010, we undertook an extensive evaluation of the Canadian market by inviting a series of vendors to participate in a formal Request for Proposal process to provide PBM services to Adjudicare. This was driven by the fact that our five year contract with ESI was up for renewal in early 2011. Before renewing another long term contract, management felt that it was important to test the market to ensure that we were receiving the best combination of service, technology and commercial value since we are reselling these products and services to our channel partners.

After completing our review in December, management decided that it was in the best interest of Adjudicare and its strategic customers to remain with ESI and has agreed to renew the PBM agreement for another five years effective April 1, 2011.

This decision was based on the fact that ESI's delivery model best supports our value proposition of giving TPAs control of the claims adjudication process. They are also able to do this at a very competitive price relative to the market. This is because they see value in Adjudicare as a channel partner who enables them to access the small to medium sized TPA and insurance broker market as opposed to selling directly to them.

Through this process, we were also able to build a closer relationship with ESI and have identified several ways to improve our drug card offering and services to our strategic customers.

## **Outlook for 2011**

Today the Corporation is also pleased to announce that Richard Adair has been appointed as President of Adjudicare. Mr. Adair has been working successfully with the Adjudicare team over the past nine months in his role as Chief Financial Officer and Chief Operating Officer to review and strengthen the business strategy of the division. This organizational change demonstrates the Corporation's commitment to the business by formalizing the leadership of the division and investing additional senior management time and resources to focus on growing revenue profitably.

Management feels that with our strategic vision in place and our value proposition more clearly defined, our opportunity to find additional channel partners is significantly enhanced. This should enable the business to continue to grow at a healthy rate in 2011.

## *Symbility*

### **Overview of the Three Month Period Ended March 31, 2011**

#### **North American Market**

#### **Product Strategy**

In March of 2010, Symbility launched its newest claims software solution, Symbility Inside Adjuster. Symbility Inside Adjuster will aid insurers in quickly estimating the scope of a loss during the first notice of loss (FNOL) without necessarily requiring escalation to field adjusting. As with all Symbility products, Symbility Inside Adjuster's open architecture design allows the integration of claims data into the entire claims settlement process across multiple applications. This breakthrough approach to settling simple losses at FNOL will aid insurers in their goal of shortening cycle times, improving customer service standards and overall, retaining customers.

#### **Strategic Customers**

In the first quarter of 2011, Symbility announced the signing of an agreement with the TRADEPRO Network, a wholly owned subsidiary of the TRADEPRO Group LLC "TRADEPRO". TRADEPRO is a specialty trades service provider network for property damage restoration and repairs servicing property & casualty insurance carriers and self-insured's throughout the United States. This is the first significant penetration that Symbility has been able to make into a contractor network in the United States and management hopes that they will become a key part of our supply chain strategy.

During the quarter, Symbility also announced the signing of an agreement with La Capitale General Insurance, a leading home and auto insurance company in Quebec. La Capitale General Insurance ranks among the five largest insurers in Quebec administering more than 725 million dollars in premiums. The newly improved Quebec database was one of the key considerations in La Capitale's decision to migrate to Symbility and management hopes to leverage this fact into contracts with other Quebec-based insurers in 2011.

Revenue in North America grew 45% as compared to the three months ended March 31, 2010. The majority of this revenue growth was generated by Farmer's Specialty Division as they rolled out the product to their user base. Symbility also saw increased growth from its other customers as a result of increased use of the products across their organizations and higher storm activity in North America as compared to the prior period.

### **Outlook for 2011**

In May of 2011, Symbility announced the release of Version 4.0 the Symbility Mobile Claims and Symbility Claims Connect applications.

In Version 4.0, new functionality has been introduced to better enhance and streamline the claims estimation process:

- Symbility now communicates with providers of aerial roofing measurements and enables users to automatically generate a 3D roof plan.
- Companies are now able to define their own default Claim Structure when creating a new claim or when assigning a claim to a vendor.
- Symbility has greatly improved its report engine in the Report Builder and provides users with more options when creating, generating or viewing reports.

Management believes that by continuing to evolve the product offering to meet its customer needs, Symbility can continue to gain share in the North American market and grow revenue for the balance of 2011.

## **Europe**

### **Strategic Customers**

Royal Sun Alliance ("RSA") has completed the rollout of Symbility's desk top Triage software across their organization. The Triage software has been implemented in 4 call centres around the U.K. and is used to process property claims throughout RSA's U.K. operation. This is a significant milestone as this represents the first live installation of this product and management believes that RSA can be used as a reference to other insurers in the U.K. who are interested in improving the claims fulfillment process.

Revenue in Europe declined as compared to the first three months of FY 2010 by approximately 35%. This is mainly attributed to the fact that RSA generated professional services revenue to Symbility during the rollout of the products to their users. This was non-recurring revenue which did not continue in the first three months of FY 2011.

### **Strategic Partners**

At the end of 2010, Symbility extended its strategic partnership with Innovation Group ("TIG") for the distribution of Symbility's market leading property estimation software. Over the past three years, Innovation Group has invested significant resources into building a team dedicated to enhancing, supporting and selling the Symbility products in Europe. They have also recently made a significant capital investment into their hosting facility in the U.K. to enable them to host all of Symbility's products. Previously, the applications were hosted by Symbility in Canada. Certain European customers have policies about data protection and require sensitive information to be hosted locally. Symbility agreed with Innovation Group's management that transferring hosting responsibility to Innovation Group was a critical requirement to facilitate growth in sales in the European market.

## Outlook for 2011

By committing to a long term relationship with Innovation Group, Symbility has shown its existing and prospective customers that we are committed to investing in and supporting the European market. We will continue to work with the Innovation Group team to leverage the credibility the installation at RSA provides in the U.K. As demonstration of this, Innovation group is currently running proof of concept programs with several U.K. insurers, loss adjusters, and contract networks. We have also continued to follow our North American strategy of developing key features and functionality at the request of these potential customers to provide them with the best business case possible and maximize our chances of obtaining orders.

The launch of the German product has created interest from several German insurers to engage in proof of concept exercises (“POC”). TIG’s German operation initiated one of these POC’s in the first quarter of 2011 and we have processed our first live property and casualty claims from a German insurer.

We feel that while the European business lagged behind North America in 2010, the level of activity there with potential customers makes us confident that we can increase our market share and increase revenue growth in this market in 2011.

## Selected Annual Financial Information

These financials have been prepared in accordance with IFRS. For further information, please see Note 1 and Note 2 of the interim consolidated financial statements for the period ended March 31, 2011.

The following table shows selected financial information for the three month period ended March 31, 2011 and a comparison to the same period in the prior year.

Unaudited in thousands of dollars, except per share amounts

	<b>THREE MONTHS ENDED MAR. 31, 2011</b>	<b>THREE MONTHS ENDED MAR. 31, 2010</b>
<b>Adjudicare Revenue</b>	\$779	\$645
<b>Symbility Revenue</b>	\$888	\$613
<b>Total Revenue</b>	\$1,667	\$1,258
<b>Net Income (Loss)</b>	\$57	\$(195)
<b>Earnings (Loss) per Share</b>	\$0.00	\$(0.00)
<b>Total assets</b>	\$3,512	\$2,354
<b>Total Long-Term Financial Liabilities</b>	\$305	\$158

## **Results of Operations**

### **Interim Consolidated Balance Sheet as at March 31, 2011 as compared to December 31, 2010**

#### ***Current Assets***

Accounts receivable has increased by approximately \$426,000 since December 31, 2010. This increase is principally explained by an increase in revenue from customers in United States and United Kingdom in 2011. There was also an advance receivable from a customer for future services.

Inventory is essentially the same as compared to last year. Adjudicare has seen a steady flow of orders for the production of drug cards from its customers and did not require a material increase in inventory levels for the expected activity in 2011.

Prepaid expenses and other assets have increased by approximately \$290,000. This increase mainly relates to the pre-payment of payroll withdrawal for the next payroll period in Q2 2011.

#### ***Restricted Cash Deposits***

The Corporation's restricted cash deposits remained the same as last year. These deposits relate to the cash collateral required to support a letter of credit and certain corporate credit cards.

#### ***Property and Equipment***

The Corporation's property and equipment increased by approximately \$20,000 since December 31, 2010. This increase can be attributed to the investment into capital expenditures of hardware and software.

#### ***Intangible Assets***

Intangible assets have increased by approximately \$6,000 since December 31, 2010. This increase relates mainly to the investment into certain indefinite-life intangible assets such as trademark and was somewhat offset by the normal depreciation of computer software. The Corporation assesses these assets for impairment on an annual basis and when events or changes in circumstances indicate that an asset might be impaired.

### **Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)**

#### ***Revenues***

Revenues for the three months ended March 31, 2011 increased to approximately \$1,667,000. This compares to revenues of approximately \$1,258,000 for the same period in the previous year. This represents an increase of approximately \$409,000 or 33%.

The majority of this increase relates to growth in Symbility's sales as customer acceptance of their technology increased and revenue from the contract with Foremost is recognized. For the three months ended March 31, 2011, Symbility had revenues of approximately \$888,000. This compares to revenues of approximately \$613,000 for the same period in the previous year. This represents an increase of approximately \$275,000 or 45%.

The balance of the increase for the period can be attributed to Adjudicare, which saw growth in revenue from its existing customer base due mainly to the rollout of the groups associated with Sirius. Revenues for three months ended March 31, 2011 for Adjudicare increased to approximately \$779,000. This compares to revenues of approximately \$645,000 for the same period in the previous year. This represents an increase of approximately \$134,000 or 21%.

### ***Cost of Sales***

Cost of sales represents costs of certain insurance products, which are in turn sold to broker customers of Adjudicare, as well as the cost of certain database license fees paid to third parties by Symbility.

The cost of sales for the three months ended March 31, 2011 increased to approximately \$343,000, and represents 21% of related revenue. This compares to cost of sales of approximately \$284,000 for the same period in the previous year, which represented 23% of related revenues during this period. In general, as sales of Symbility's high-margin technology grows, the overall cost of sales as a percentage of revenue decreases and the overall gross margin of the Corporation is improving.

Adjudicare's costs related to direct insurance and distribution in three months ended March 31, 2011 were approximately \$312,000 and represents 40% of related revenue. This compares to approximately \$276,000 in the same period in the previous year which represents 43% of related revenue. The primary reason for the increase in the cost of sales relates to an increase in the resale of certain insurance products as revenue grows. The cost of sales has decreased as a percentage of revenue as the penetration of high margin insurance products such as the claim transaction fees have increased.

Symbility's cost of sales attributed to database licenses during the three months ended March 31, 2011 was approximately \$31,000 which represents 3% of related revenue. This compares to approximately \$8,000 in the same period in the previous year which represented 1% of related revenue. Database licensing costs are increasing as a result of changes to the contract with a key supplier. The cost of sales has increased as a percentage of revenue as some Canadian customers require the expansion of the current pricing database to cover certain regions in Quebec.

### ***General and Administration***

General and administration expense for the three months ended March 31, 2011 was approximately \$668,000. This compares to approximately \$646,000 for the same period in the previous year for an increase of \$22,000.

General and administration expenses of Automated Benefits Corp. decreased by approximately \$8,000. Senior management's time as employees of the Corporation is allocated to operating divisions based on the amount of effort devoted to these businesses. The main reason general and administration expenses decreased was due to an increase in allocation of senior management's time to Adjudicare and Symbility. This was somewhat offset by higher wages due to increased investment in the organization.

General and administration expenses of Symbility decreased by approximately \$25,000. The decrease for this period as compared to the prior year was mainly due to a decrease in travel expenses in Europe. This was somewhat offset by an increase in allocation of senior management's time to Symbility.

General and administration expenses of Adjudicare increased by approximately \$55,000. This was mainly due to an increase in the allocation of senior management and customer support resources to the division. This was somewhat offset by a reduction in wages associated with the elimination of certain positions in the organization.

### ***Research and Development***

Research and development expenses for the three months ended March 31, 2011 increased to approximately \$281,000. This compares to approximately \$241,000 for the same period in the previous year for an increase of approximately \$40,000.

Research and development expenses of Automated Benefits Corp. increased by approximately \$5,000. This increase was mainly due to certain options contracts issued to development employees which have been expensed in 2011.

Research and development expenses of Symbility increased by approximately \$50,000. This increase is mainly due to an investment into additional development personnel and office space. This was somewhat offset by an increase in the accrual for scientific research and experimental development tax credits.

Research and development expenses of Adjudicare decreased by approximately \$15,000. The decrease mainly relates to a reduction in consulting fees associated with a specific product development project.

### ***Sales and Marketing***

Sales and marketing expenses for the three months ended March 31, 2011 increased to approximately \$299,000. This compares to approximately \$298,000 during the same period in the previous year for an increase of \$1,000.

Sales and marketing expenses of Automated Benefits Corp. decreased by approximately \$13,000. This is mainly due to an increase in allocation of marketing personnel's time to Symbility and certain options contracts which have now been fully expensed.

Sales and marketing expenses of Symbility increased by approximately \$30,000. The increase relates mainly to an investment into additional marketing personnel and customer events.

Sales and marketing expenses of Adjudicare decreased by approximately \$16,000. The decrease relates to lower promotional expense and a decrease in the allocation of marketing time from Automated Benefits Corp.

### ***Other operating expenses***

Other operating expenses include depreciation, depletion and amortization and foreign exchange loss (gain). Other operating expenses for the three months ended March 31, 2011 increased to approximately \$23,000. This compares to the other operating expenses of approximately (\$6,000) during the same period in the previous year for an increase of \$29,000. The increase relates mainly to the fluctuation of the foreign exchange rate of U.S. dollars and U.K. pounds sterling.

### ***Adjusted EBITDA***

The Corporation has provided a reconciliation of Adjusted EBITDA to IFRS net earnings (loss) in the following table.<sup>1</sup> In thousands of dollars

	<b>Three Months Ended March 31, 2011</b>	<b>Three Months Ended March 31, 2010</b>
<b>Net Income (Loss)</b>	<b>\$57</b>	<b>\$(195)</b>
<b>Finance income</b>	<b>\$(4)</b>	<b>\$(10)</b>
<b>Finance costs</b>	<b>\$0</b>	<b>\$0</b>
<b>Depreciation and Amortization</b>	<b>\$11</b>	<b>\$20</b>
<b>Stock-Based Compensation</b>	<b>\$20</b>	<b>\$24</b>
<b>Restructuring Costs</b>	<b>\$20</b>	<b>\$0</b>
<b>Adjusted EBITDA</b>	<b>\$104</b>	<b>\$(161)</b>

Adjusted EBITDA for the three month period ended March 31, 2011 was approximately \$104,000. This compares to approximately \$(161,000) for the same period last year for an improvement of \$265,000.

### **Summary of Quarterly Results**

The following table shows selected financial information for each of the eight most recently completed quarters reported below in thousands of dollars, except per share amounts.

For the Quarters Ended								
	FY2011	FY2010 <sup>2</sup>				FY2009 <sup>3</sup>		
	Mar 31, 2011	Dec. 31, 2010	Sept. 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec. 31, 2009	Sept. 30, 2009	Jun 30, 2009
<b>Revenue</b>	\$1,667	\$1,615	\$1,705	\$1,271	\$1,258	\$1,231	\$1,112	\$1,130
<b>Net Income (Loss)</b>	\$57	\$(49)	\$385	\$(405)	\$(195)	\$(404)	\$(228)	\$(873)
<b>Net Income (Loss) per Share</b>	\$0.00	\$(0.00)	\$0.00	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.01)

Over the past eight quarters, revenue has generally increased as Adjudicare has grown its customer base and Symbility has started to recognize the revenue from the rollout of its new users. The losses incurred by the Corporation began to decline significantly in FY2010 due to a combination of growth in high-margin revenue and without a corresponding increase in operating expenses.

### **Liquidity and Capital Resources**

During the three month period ended March 31, 2011, the Corporation generated net earnings of \$57,186 and had cash outflows of \$263,885 from operations. At March 31, 2011, the Corporation's consolidated cash position was \$1,008,646 compared to \$1,292,516 at December 31, 2010. This decrease is principally explained by the fact that the Corporation pre-paid wages for the next payroll cycle due to the timing of the last payroll in the first quarter of 2011.

At March 31, 2011, current liabilities include accounts payable and accrued liabilities of \$1,699,250 and deferred revenue of \$790,577 for a total of \$2,489,827 compared to \$2,268,303 at December 31, 2010. The increase in current liabilities is mainly due to an increase in accounts payable to trade vendors and professionals, an increase in deferred revenue due to an advance from a U.S. customer and an increased accrual for employee bonuses.

At March 31, 2011, current assets is comprised of cash and cash equivalents of \$1,008,646, accounts receivable and others of \$1,590,082, inventory of \$2,106 and prepaid expenses and other assets of \$606,541 for a total of \$3,207,375 compared to \$2,775,944 at December 31, 2010.

The Corporation has a working capital position of \$717,548 at March 31, 2011 as compared to \$507,641 of working capital at December 31, 2010. This increase is primarily attributable to the increase in accounts receivable in Q1 2011. With current cash balances, customer contracts, and assuming the Corporation's cost structure doesn't change materially, management expects to be able to fund future operations for at least another year for the following reasons:

- The combination of significant new clients like Farmers has added high margin license revenue and has started to generate positive operating cash flow in the Symbility division.

<sup>2</sup> The amounts reflected for 2010 have been restated for IFRS.

<sup>3</sup> The amounts reflected for 2009 are reported under Previous Canadian GAAP.

- Adjudicare has certain clients such as Sirius which continue to add incremental volume to the software with minimal additional costs.
- On a consolidated basis, the Corporation has generated its third consecutive quarter with a positive adjusted EBITDA which reduces the drain on cash.
- On May 30, 2011, the Corporation entered into a scientific research and experimental development ("SR&ED") tax loan with Royal bank of Canada for up to \$250,000 to assist the Corporation with the gap between the filing and the receipt of funds from the provincial governments. The interest rate on the loan is the prime rate quoted by the bank plus 2.65%. The repayment term is the earlier of i) the receipt of the investment tax credit refunds and ii) 180 days from the initial borrowing. The loan has a financial covenant to maintain on a consolidated basis a minimum level of earnings before interest income, taxes, depreciation, and amortization commencing fiscal year ending December 31, 2011. On June 21, 2011, the Corporation borrowed \$102,000 from this SR&ED tax loan.

The Corporation has not entered into any contractual obligations which will require future payments, including long-term debt other than operating leases for equipment and premises, capital leases for equipment and certain payments under certain vendor contracts.

The following chart is a summary of contractual obligations of the Corporation, including payments for each of the next three years and thereafter as at June 27, 2011.

In thousands of dollars

<b>Payments Due by Period</b>					
<b>Contractual Obligations</b>	<b>Total</b>	<b>2011</b>	<b>2012-2014</b>	<b>2015</b>	<b>2016</b>
<b>Capital Lease Obligations</b>	\$23	\$3	\$15	\$5	\$Nil
<b>Operating Leases</b>	\$1,242	\$125	\$777	\$247	\$93
<b>Purchase Obligations<sup>4</sup></b>	\$626	\$96	\$380	\$120	\$30
<b>Total Contractual Obligations</b>	<b>\$1,891</b>	<b>\$224</b>	<b>\$1,172</b>	<b>\$372</b>	<b>\$123</b>

The Corporation has entered into commitments for additional capital expenditures totalling approximately \$150,000 since March 31, 2011.

### **Capital Expenditure Plan**

Management has decided that it is essential to invest in additional hardware and software to increase the hosting capacity to support the growth of the Corporation.

On May 16, 2011, the Corporation entered into a master lease agreement with Royal Bank of Canada (the "Bank") pursuant to which the Corporation may from time to time to purchase certain equipment. The Corporation will be responsible for insuring all the leased equipment, and will have the option to buy the same on the expiry of the lease. Under the master lease agreement, the Corporation can lease \$150,000 of new computer equipment from the Bank for 36 months. There is an option to purchase the equipment for \$1 at the end of the lease term. The interest rate on the master lease is the 3 year bond rate on August 30, 2011 which is the expiry date on the commitment to lease. On the same date, the Corporation entered into an interim funding agreement with the Bank to fund the equipment purchases, which requires the Corporation to pay an interest rate of the Bank's prime rate plus 2.65% for any equipment purchased prior to August 30, 2011.

<sup>4</sup> "Purchase Obligation" means an agreement to purchase goods or services that is enforceable and legally binding on the Corporation that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

This financing is significant as it enables the Corporation to support its growth strategy without severely impacting its cashflow.

### **Off Balance Sheet Arrangements**

The Corporation did not enter into any off balance sheet arrangements during the three month period ended March 31, 2011 and has not done so historically.

### **Related Party Transactions**

For the three months ended March 31, 2011, the Corporation expensed \$20,500 (2010 - \$16,000) for services provided by the Directors of the Corporation.

On April 28, 2011, 646,000 options were granted to the independent Directors and three Officers of the Corporation in accordance with the Corporation's stock option plan. Each option entitles its holder to purchase one common share of the Corporation at a price of \$0.255 per share for a period of ten years from the date of grant. The options will vest in three equal tranches with one-third vesting immediately, one-third vesting on the first anniversary of the grant date, and one-third vesting on the second anniversary of the grant date. The granting of the stock options is subject to regulatory approval.

On June 27, 2011, 525,000 options were granted to an independent Director and an Officer of the Corporation in accordance with the Corporation's stock option plan. Each option entitles its holder to purchase one common share of the Corporation at a price of \$0.24 per share for a period of ten years from the date of grant. The options will vest in three equal tranches with one-third vesting immediately, one-third vesting on the first anniversary of the grant date, and one-third vesting on the second anniversary of the grant date. The granting of the stock options is subject to regulatory approval.

For the three months ended March 31, 2010, the Corporation issued 135,761 common shares with an estimated weighted average fair value of \$0.12 per share for an aggregate value of \$16,291 to the Directors of the Corporation for services provided. The issuance of these common shares to the Directors was approved by the TSX Venture Exchange. The estimated fair value was determined based on the share price on the date of issuance.

All of the above transactions with the Directors of the Corporation were recorded at the exchange amount.

### **Compensation of Key Management Personnel**

Key management personnel include the roles of Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer, Vice President and Board of Directors.

The compensation paid or payable to key management is shown in the following table, in thousands of dollars:

	<b>Three-month period ended March 31, 2011</b>	<b>Three-month period ended March 31, 2010</b>
Salaries, fees and other short term employee benefits	\$220	\$251
Share-based payments	\$11	\$21
<b>Total</b>	<b>\$231</b>	<b>\$272</b>

In accordance with International Accounting Standard 24, Related Party Disclosures ("IAS 24"), the Corporation is required to disclose the stock options issued to and held by key management personnel under the stock option plan to purchase ordinary shares from January 1, 2010 (the transition date) to March 31, 2011 (the reporting date).

Issuance date	Expiry date	Exercise price	Number of options issued	March 31, 2011	December 31, 2010	January 1, 2010
		\$		Number of options outstanding	Number of options outstanding	Number of options outstanding
April 28, 2010	April 28, 2015	0.11	298,932	298,932	298,932	-
November 25, 2010	November 25, 2020	0.20	35,000	35,000	35,000	-
<b>Total</b>			333,932	333,932	333,932	-

### Changes in accounting policies

#### *International Financial Reporting Standards ("IFRS")*

The Corporation has adopted IFRS as its basis of financial reporting commencing with the interim consolidated financial statements for the three months ended March 31, 2011 and comparative periods are reported under IFRS. The Corporation's transition to IFRS is January 1, 2010. These interim consolidated financial statements were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the IASB using the accounting policies the Corporation expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. Previously, the Corporation prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS has an impact on the Corporation's statements of financial position and statements of income (loss) and comprehensive income (loss). For details, please refer to note 20 in the interim consolidated financial statements for the quarter ended March 31, 2011.

#### **Exemptions applied under IFRS 1**

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. The following exemptions were applied in the preparation of the Corporation's opening balance sheet dated January 1, 2010.

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

ii) Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Corporation elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

## **Impact of IFRS transition**

As a result of the transfer from Canadian GAAP to IFRS, there has not been a material impact on the financial statements of the Corporation.

### ***Share-based payments***

Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS 2 requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has a different vesting date.

Under Canadian GAAP, compensation is recognized assuming all options will vest and adjusted as forfeitures occur. IFRS 2 requires an estimate of forfeitures to be reflected in the amount of compensation recognized.

Under IFRS, an estimate of forfeitures must be factored into the calculation of periodic compensation expense. Compensation costs are accrued based on the best estimate of the number of options expected to vest using the Black-Scholes model. Revisions are made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Also, under IFRS, the fair value of each tranche within a share-based award is treated as a separate award with the fair value determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, upon the transition to IFRS, the Corporation recorded a fair value adjustment of \$19,773 as of January 1, 2010 to decrease the contributed surplus with a corresponding charge to deficit. As at March 31, 2010 and December 31, 2010, additional fair value adjustments of \$3,795 and \$17,107 were recorded respectively.

### ***IFRS reclassification***

Under IFRS, the Corporation elected to present expenses in the consolidated statement of income (loss) and comprehensive income (loss) using a classification based on their function. In addition, certain corresponding figures under Canadian GAAP as at January 1, 2010 and December 31, 2010 have been reclassified to conform to the new presentation under IFRS.

## **Changes in accounting policies not yet adopted**

The following accounting pronouncements have been released but have not yet been adopted by the Corporation:

### **i) Financial instruments**

In November 2009, IASB intends to replace IAS 39, “Financial Instruments: Recognition and Measurements” (“IAS39”) with IFRS 9, “Financial Instruments” (“IFRS 9”). In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit or loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to credit risk out of profit or loss and recognize the change in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with different transitional arrangements depending on the date of initial application. The Corporation is evaluating the impact of adopting IFRS 9 on the consolidated financial statements.

ii) Consolidated financial statements

IFRS 10, "Consolidated financial statements" ("IFRS 10") is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27 consolidated and separate financial statements ("IAS 27"), and interpretation SIC-12 consolidation — special purpose entities.

Under IFRS 10, consolidated financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries, however, IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Early adoption of this standard is permitted. The Corporation is evaluating the impact of adopting IFRS 10 on the consolidated financial statements.

iii) Fair value measurement

IFRS 13, "Fair value measurement" ("IFRS 13") provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective January 1, 2013 and will be adopted prospectively. The Corporation is evaluating the impact of adopting IFRS 13 on the consolidated financial statements.

***Disclosure of Outstanding Share Data***

The following chart summarizes the equity securities outstanding as of the date hereof:

<b>EQUITY SECURITY</b>	<b>NUMBER OUTSTANDING JUNE 27, 2011</b>
Common Shares	118,313,811
Warrants	0
Broker's Warrants	0
Preferred Series A Shares	0
Stock Options <sup>5</sup>	7,413,864

***Financial Instruments and Risk Management***

The Corporation's financial instruments consist of accounts receivable, accounts payable and accrued liabilities and finance lease obligations and their carrying value approximates fair value due to their immediate or short-term maturity.

- Market Risk and Foreign Currency risk

The Corporation operates primarily within Canada, the United States and the United Kingdom, and is therefore exposed to foreign currency risk. As at March 31, 2011, the fluctuation of the U.S. dollar and U.K. pound sterling of 1% would have an insignificant impact on net loss and comprehensive loss.

The Corporation has entered into derivative currency options to sell U.K. pounds sterling and is exposed to foreign currency risk on the fair value of its outstanding derivatives currency option contracts. These currency option contracts have terms ranging from October 21, 2009 to February 21,

<sup>5</sup> Includes 525,000 options that were granted on June 27, 2011 to an independent Director and an Officer of the Corporation in accordance with the Corporation's stock option plan.

2011. As at March 31, 2011, the Corporation had no currency option contracts to sell U.K. pounds sterling for Canadian dollars outstanding.

- Credit risk

The Corporation is exposed to credit risk in the event of non-performance by customers. The Corporation monitors the credit risk of customers on a regular basis. The maximum credit risk is the carrying value of the accounts receivable. In the first quarter of 2011 and 2010, as indicated in the Corporation's interim consolidated financial statements and related notes for the period ended March 31, 2011, no single customer of Adjudicare accounted for 10% or more of the Corporation's revenue. In the first quarter of 2011, there were two customers of Symbility which accounted for more than 10% of the Corporation's revenue. In the first quarter of 2010, one Symbility customer accounted for 10% or more of the Corporation's revenue.

- Liquidity risk

The Corporation's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Corporation achieves this by maintaining sufficient cash and cash equivalents and through the raising of equity financing.

For more information, see Note 12 of the interim consolidated financial statements for the quarter ended March 31, 2011.

### **Risk and Uncertainties**

Readers are referred to risk factors found in the Corporation's December 31, 2010 MD&A filed April 29, 2011 on SEDAR, which is available in electronic form at [www.sedar.com](http://www.sedar.com).