



Consolidated Financial Statements
March 31, 2010 and 2009

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 for the consolidated financial statements through its Audit Committee, consisting solely of independent directors. The Audit Committee meets with management and independent auditors to review the consolidated financial statements and the internal controls over financial reporting. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders. The independent auditors have full and free access to the Audit Committee and may meet with or without the presence of management.

PricewaterhouseCoopers LLP, appointed by the shareholders as the Corporation's independent auditors, have audited the consolidated financial statements.

(signed)
Claude Roy
President and Chief Executive Officer

(signed)
Suzanne Mercier
Chief Financial Officer

June 8, 2010

June 8, 2010

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Auditors' Report

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

We have audited the consolidated balance sheets and the consolidated statements of accumulated other comprehensive income (loss) of **Mediagrif Interactive Technologies Inc./Technologies Interactives Mediagrif Inc.** (the "Company") as at March 31, 2010 and 2009 and the consolidated statements of earnings (loss), retained earnings, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

¹ Chartered accountant auditor permit No. 21323

Consolidated Balance Sheets
As at March 31, 2010 and 2009

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	34,359,693	27,733,976
Cash held for the benefit of others (note 2)	4,026,298	2,379,832
Accounts receivable	5,053,098	6,479,491
Income taxes receivable	-	758,026
Tax credits receivable	1,363,245	3,168,642
Prepaid expenses	711,349	838,574
Future income taxes (note 11(c))	-	346,643
	45,513,683	41,705,184
Premises and equipment (note 5)	1,423,366	1,826,409
Intangible assets (note 6(a))	894,066	1,375,892
Acquired intangible assets (note 6(b))	2,674,919	3,364,420
Goodwill (note 7)	25,991,266	25,991,266
Future income taxes (note 11(c))	5,684,486	7,534,120
	82,181,786	81,797,291
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	9,696,398	10,852,464
Income taxes payable	389,945	-
Deferred revenues	8,716,728	9,378,814
Future income taxes (note 11(c))	605,880	999,380
	19,408,951	21,230,658
Future income taxes (note 11(c))	128,788	90,183
	19,537,739	21,320,841
Shareholders' Equity		
Capital stock (note 8)	47,809,345	48,078,790
Share purchase options (note 8(c))	1,687,721	1,646,780
Contributed surplus (note 8(d))	2,491,291	2,393,594
Retained earnings	10,602,038	9,240,741
Accumulated other comprehensive income (loss)	53,652	(883,455)
	62,644,047	60,476,450
	82,181,786	81,797,291

Certain figures as at March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

Commitments (note 10)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

_____, Director
Gilles Laurin

_____, Director
Claude Roy

Consolidated Statements of Retained Earnings
For the years ended March 31, 2010 and 2009

	2010 \$	2009 \$
Retained earnings – Beginning of year, as previously reported	9,261,678	10,719,142
Changes in accounting policies (note 2)	(20,937)	(76,437)
Retained earnings – Beginning of year, as restated	9,240,741	10,642,705
Net earnings (loss) for the year	2,526,839	(1,293,267)
	11,767,580	9,349,438
Premium on redemption of common shares for cancellation (note 8(b)(i))	-	(108,697)
Dividends declared on common shares	(1,392,227)	-
Adjustment due to a previous share buyback	226,685	-
Retained earnings – End of year	10,602,038	9,240,741

Certain figures for the year ended March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income (Loss)
For the years ended March 31, 2010 and 2009**

	2010 \$	2009 \$
Net earnings (loss) for the year	2,526,839	(1,293,267)
Foreign currency translation adjustment	(236,075)	687,073
Reclassification of realized gains or losses on foreign currency forward contracts, net of future income taxes of \$53,706 (2009 – \$177,223)	112,368	396,314
Change in unrealized gains (losses) on foreign currency forward contracts, net of future income taxes of \$468,838 (2009 – \$492,682)	1,060,814	(1,101,757)
	937,107	(18,370)
Comprehensive income (loss) for the year	3,463,946	(1,311,637)

Certain figures for the year ended March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

**Consolidated Statements of Accumulated Other Comprehensive Income (Loss)
As at March 31, 2010 and 2009**

	2010 \$	2009 \$
Foreign currency translation adjustment		
Cumulative effects of prior years	(108,275)	(795,348)
Current year	(236,075)	687,073
	(344,350)	(108,275)
Unrealized gains (losses) on foreign currency forward contracts		
Cumulative effects of prior years	(775,180)	(69,737)
Change in gains (losses) on foreign currency forward contracts, net of future income taxes of \$522,544 (2009 – \$315,459)	1,173,182	(705,443)
	398,002	(775,180)
Accumulated other comprehensive income (loss)	53,652	(883,455)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings (Loss)
For the years ended March 31, 2010 and 2009

	2010 \$	2009 \$
Revenues	45,725,412	47,940,421
Cost of revenues	10,292,616	11,121,612
Gross margin	35,432,796	36,818,809
Operating expenses		
General and administrative	8,676,229	16,229,699
Sales and marketing	8,735,076	11,158,719
Technology (note 9)	7,574,458	8,341,792
Amortization of acquired intangible assets	689,501	1,556,852
Stock-based compensation	280,783	465,514
Impairment of intangible assets and acquired intangible assets (note 6)	-	6,610,310
Loss on disposal of an investment (note 1)	-	212,980
	25,956,047	44,575,866
Earnings (loss) from operations	9,476,749	(7,757,057)
Other income (expense), net (note 13(b))	(2,759,216)	2,299,142
Earnings (loss) before income taxes	6,717,533	(5,457,915)
Provision for (recovery of) income taxes (note 11(a))	4,190,694	(4,164,648)
Net earnings (loss) for the year	2,526,839	(1,293,267)
Basic net earnings (loss) per share	0.18	(0.09)
Diluted net earnings (loss) per share	0.18	(0.09)
Dividends per common share	0.10	-
Weighted average number of shares outstanding (note 8(g))		
Basic	13,939,109	14,261,939
Diluted	13,939,109	14,261,939
Number of shares outstanding – End of year	13,895,744	13,974,058

Certain figures for the year ended March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended March 31, 2010 and 2009

	2010 \$	2009 \$
Cash flows from		
Operating activities		
Net earnings (loss) for the year	2,526,839	(1,293,267)
Adjustments for		
Amortization of premises and equipment	1,223,625	1,582,151
Amortization of intangible assets	764,493	2,504,046
Amortization of acquired intangible assets	689,501	1,556,852
Amortization of gain on licenses	-	(478,562)
Impairment of intangible assets and acquired intangible assets (note 6)	-	6,610,310
Stock-based compensation	280,783	465,514
Future income taxes (note 11(a))	1,318,838	(3,283,857)
Loss on disposal of premises and equipment	16,592	-
Changes in non-cash working capital items (note 13(a))	4,893,245	(3,501,111)
	11,713,916	4,162,076
Investing activities		
Business acquisitions, net of cash and cash equivalents acquired (note 4)	-	(577,000)
Acquisition of premises and equipment and intangible assets	(1,130,886)	(2,783,830)
Proceeds on disposal of premises and equipment	11,045	-
	(1,119,841)	(3,360,830)
Financing activities		
Purchase of common shares for cancellation (note 8(b)(i))	(411,590)	(1,859,489)
Cash dividends paid on common shares	(1,392,227)	-
	(1,803,817)	(1,859,489)
Net increase (decrease) in cash and cash equivalents	8,790,258	(1,058,243)
Effect of exchange rate fluctuations on cash and cash equivalents	(518,075)	664,544
Cash and cash equivalents – Beginning of year	30,113,808	30,507,507
Cash and cash equivalents – End of year	38,385,991	30,113,808
Cash and cash equivalents comprise the following balance sheet amounts:		
Cash and cash equivalents	34,359,693	27,733,976
Cash held for the benefit of others	4,026,298	2,379,832
Supplementary information		
Interest paid	93,318	42,264
Income taxes paid	1,841,487	1,185,518

Certain figures for the year ended March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

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.

In addition, the Company had an interest in Centerac DMCC, through its wholly owned subsidiary Mediagrif DMCC. Centerac DMCC was sold to its co-venturer on March 23, 2009.

2 Significant accounting policies

Changes in accounting policies

Goodwill and intangible assets

On April 1, 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". The new Section establishes standards for the recognition, costing, presentation and required information related to goodwill after its initial recognition. It also establishes the standard for when internally developed intangible assets satisfy recognition criteria as an asset. Section 3064 replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Concurrently, CICA Abstract EIC-27, "Revenues and Expenditures During the Pre-operating Period", has been withdrawn, and Accounting Guideline 11, "Enterprises in the Development Stage", and Section 1000, "Financial Statement Concepts", have been amended. These new accounting standards were required to be adopted retroactively, with restatement of comparative figures.

The adoption of the new accounting standards resulted, in these consolidated financial statements, in a cumulative charge of \$76,437 to retained earnings on April 1, 2008 and \$20,937 on April 1, 2009. The transitional adjustment also resulted in the following changes to the Company's consolidated balance sheet: (i) a decrease of \$98,653 in other assets on April 1, 2008 and \$27,028 on April 1, 2009; (ii) a decrease of \$22,216 in long-term future income tax liability on April 1, 2008 and an increase of \$6,091 in long-term future income tax asset on April 1, 2009. In addition, the Company was impacted by a \$71,625 decrease in the amortization of other assets and a \$16,125 increase in the provision for income taxes for the year ended March 31, 2009. These changes relate to pre-operating expenditures that were incurred and capitalized during previous business acquisitions and that are no longer capitalized under the new accounting standards. These standards have no significant impact on the basic and diluted loss per share for the year ended March 31, 2009.

Financial instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. 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.

Information in respect of fair value hierarchy is presented in note 16.

Future accounting changes

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the Accounting Standards Board of Canada approved three new CICA Handbook Sections: Section 1582, "Business Combinations"; Section 1601, "Consolidated Financial Statements"; and Section 1602, "Non-controlling Interests", replacing Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements". Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. Section 1601 establishes standards for the preparation of consolidated financial statements, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. Rather, consolidated net income is to be allocated between controlling and non-controlling interests. These three new sections are to be implemented concurrently and apply prospectively to all business combinations of the Company for which the acquisition date is on or after April 1, 2011, with earlier application permitted. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of Canada confirmed that Canadian 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 generally accepted accounting principles 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, including those related to amortization methods and useful lives, impairment of assets including goodwill and intangible assets, 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 as other financial liabilities, each of which is carried at amortized cost. The Company has classified its cash and cash equivalents 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 income.

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. Gains and losses are included as a component of accumulated other comprehensive income (loss).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and liquid investments that are readily convertible in the short term into a known amount of cash and whose risk of a change in value is negligible.

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 cash, net of any related commissions earned by the Company, must ultimately be remitted to the counterparty in such transactions.

Consequently, cash received as at March 31, 2010 but not yet remitted to the counterparty amounted to \$1,325,040 (US\$1,304,687) (2009 – \$437,382 (US\$347,073)) and is presented on the balance sheet as Cash held for the benefit of others. As at March 31, 2010, the amount of accounts receivable related to rebate and disposition transactions amounted to \$1,439,007 (US\$1,416,903) (2009 – \$1,519,132 (US\$1,205,469)).

In addition, the Company offers an escrow service. In connection with these activities, the Company is appointed as 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 for an amount of \$2,701,258 (US\$2,659,766) (2009 – \$1,942,450 (US\$1,541,382)).

The total accounts payable for these transactions amount to \$5,465,305 (US\$5,381,356) (2009 – \$3,898,964 (US\$3,093,924)).

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, sales of licenses and gains on licenses transferred to joint ventures. 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 transactions occur.
- Gains on licenses transferred to joint ventures are deferred and amortized on a straight-line basis over the longer of three years and the development period of the joint ventures' vertical network.

During the year ended March 31, 2010, the Company entered into non-monetary transactions whereby memberships are exchanged for advertising. These transactions are measured at a fair value of US\$78,525 (2009 – US\$123,984) and are recorded in Revenues and Sales and marketing expenses.

Premises and equipment

Premises and equipment 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:

	Method	Period/Rate
Office furniture	Declining balance	20%
Computer and other equipment	Straight-line	3 years
Leasehold improvements	Straight-line	Maximum of 5 years

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, which consist of customer bases, technology, trademarks and lead databases, derived from business acquisitions are recorded at cost less accumulated amortization. Acquired intangible assets are amortized on a straight line-basis over the estimated useful lives of the related assets, as follows:

Category	Period
Customer bases	5 to 10 years
Technology	5 years
Trademarks	10 years
Lead databases	5 years

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 of tax allocation. 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.

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 8. 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. Forfeitures are accounted for as they occur by reducing Share purchase options, with an offsetting credit to Contributed surplus or Stock-based compensation expense.

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 (loss) and recognized in the consolidated statement of earnings (loss) during the same period as the underlying revenues.

3 Joint ventures

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

	2010 \$	2009 \$
Earnings		
Revenues	1,680,066	2,014,821
Cost of revenues	261,676	345,436
Operating expenses	1,168,466	2,051,080
Net earnings (loss)	204,215	(321,698)
Cash flows		
Provided by operating activities	187,069	100,301
Provided by investing activities	-	123,491
Used in financing activities	-	(31,540)
Balance sheet		
Current assets	848,800	4,071,011
Long-term assets	-	18,641
Current liabilities	458,807	405,464

4 Business acquisitions

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

Fiscal year ended March 31, 2009

On September 2, 2008, the Company purchased the assets of BUS System Inc. ("BUS"), which offers Web applications to the automotive industry, for a cash consideration of \$520,000 and a liability assumed of \$57,000.

Allocation of the purchase price is detailed as follows:

	\$
Premises and equipment	60,000
Intangible assets	367,000
Acquired intangible assets	<u>150,000</u>
	<u>577,000</u>

5 Premises and equipment

a) Premises and equipment comprise the following:

	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
	<u>11,526,295</u>	<u>10,102,929</u>	<u>1,423,366</u>
	2009		
	Cost \$	Accumulated amortization \$	Net \$
Office furniture	1,333,335	1,097,081	236,254
Computer and other equipment	11,173,950	9,660,920	1,513,030
Leasehold improvements	1,314,644	1,237,519	77,125
	<u>13,821,929</u>	<u>11,995,520</u>	<u>1,826,409</u>

- b) Amortization of premises and equipment amounted to \$1,223,625 for the year ended March 31, 2010 (2009 – \$1,582,151).
- c) Acquisition of premises and equipment amounted to \$848,218 for the year ended March 31, 2010 (2009 – \$530,672, including \$60,000 related to a business acquisition (note 4)).
- d) Disposal of premises and equipment amounted to \$27,637 for the year ended March 31, 2010 (2009 – nil).

6 Intangible assets and acquired intangible assets

- a) Intangible assets comprise the following:

	2010 \$	2009 \$
Software, net of accumulated amortization of \$4,699,051 (2009 – \$5,313,904)	543,938	810,123
Internally developed software and websites, net of accumulated amortization of \$655,693 (2009 – \$235,448)	350,128	565,769
	894,066	1,375,892

- i) Amortization of software amounted to \$344,248 for the year ended March 31, 2010 (2009 – \$513,044).
- ii) Amortization of internally developed software and websites amounted to \$420,245 for the year ended March 31, 2010 (2009 – \$1,991,002).
- iii) Acquisition of software amounted to \$78,063 for the year ended March 31, 2010 (2009 – \$816,945, including \$367,000 related to a business acquisition (note 4)).
- iv) Additions to capitalized internally developed software and websites amounted to \$204,605 for the year ended March 31, 2010 (2009 – \$1,863,213).
- v) As a result of market conditions, the Board of Directors and Chief Executive Officer of the Company conducted a strategic and operational review of the Company's business activities during fiscal 2009. As part of this review, certain projects related to internally developed software were abandoned, resulting in a \$3,048,831 writeoff.

b) Acquired intangible assets comprise the following:

	2010 \$	2009 \$
Customer bases, net of accumulated amortization of \$5,254,572 (2009 – \$5,789,754)	2,292,418	2,822,260
Technology, net of accumulated amortization of \$1,633,094 (2009 – \$1,606,518)	323,075	466,663
Trademarks, net of accumulated amortization of \$546,695 (2009 – \$533,637)	57,673	70,731
Lead databases, net of accumulated amortization of \$26,900 (2009 – \$344,839)	1,753	4,766
	2,674,919	3,364,420

- i) Amortization of acquired intangible assets amounted to \$689,501 for the year ended March 31, 2010 (2009 – \$1,556,852).
- ii) During the year ended March 31, 2010, there were no new acquired intangible assets related to business acquisitions (2009 – \$150,000) (note 4)).
- iii) As a result of market conditions, the Company performed an impairment test on its long-lived assets during fiscal 2009. The Company tested its long-lived assets using a two-step methodology:
- Step 1 is to compare the carrying value of the long-lived assets to estimated undiscounted cash flows from the use and eventual disposal of the assets. Estimating the cash flows from the Company's current and future activities is complex given current economic conditions and contains estimates and judgments that are subjective and uncertain and thus may change over time. Based on the Company's forecast, the book value of certain of its long-lived assets was greater than the expected undiscounted cash flows from the use and eventual disposal of those assets.
 - For those assets, step 2 was performed. It consisted of comparing the carrying value of the long-lived assets which failed step 1 to their fair value determined through discounted cash flows. Based on its assessment, the Company recorded impairment charges of \$3,265,612 to acquired intangible assets and \$295,867 to software, which represent the excess of the carrying value over the fair value of those intangible assets. Accumulated amortization as at March 31, 2009 includes impairment of \$2,080,169 for customer bases, \$884,909 for technology, \$292,598 for trademarks and \$7,936 for lead databases.

7 Goodwill

	2010 \$	2009 \$
Beginning of year	25,991,266	25,991,266
Business acquisitions (note 4)	-	-
Balance – End of year	25,991,266	25,991,266

8 Capital stock, share purchase options and contributed surplus

- a) Authorized, unlimited as to 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:

	2010		2009	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning of year	13,974,058	48,078,790	14,564,639	50,110,729
Purchased for cancellation (note 8(b)(i))	(78,314)	(269,445)	(590,581)	(2,031,939)
Exercise of stock options (note 8(b)(ii))	-	-	-	-
Balance – End of year	13,895,744	47,809,345	13,974,058	48,078,790

- i) During the year ended March 31, 2010, the Company purchased 78,314 of its own shares (2009 – 590,581) for cancellation for a cash consideration totalling \$411,590 (2009 – \$1,859,489) in connection with its normal course issuer bid. Capital stock has been reduced by the average issue price per share before buyback of \$3.44 (2009 – \$3.44) totalling \$269,445 (2009 – \$2,031,939), with the resulting premium or discount on redemption having been charged to Retained earnings or Contributed surplus.
- ii) During the year ended March 31, 2010, no common shares were issued pursuant to the exercise of stock options (2009 – no common shares).

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

	2010 \$	2009 \$
Balance – Beginning of year	1,646,780	2,300,776
Stock-based compensation expense	280,783	465,514
Transfer of accumulated compensation cost upon exercise of stock options (note 8(b)(ii))	-	-
Transfer of accumulated compensation cost related to stock options vested but not exercised	(239,842)	(1,119,510)
Balance – End of year	1,687,721	1,646,780

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

	2010 \$	2009 \$
Balance – Beginning of year	2,393,594	992,937
Transfer of accumulated compensation cost related to stock options vested but not exercised	239,842	1,119,510
Discount on redemption of common shares for cancellation (note 8(b)(i))	-	281,147
Reduction of the accumulated discount on redemption of common shares for cancellation (note 8(b)(i))	(142,145)	-
Balance – End of year	2,491,291	2,393,594

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, 2010, the expense amounted to \$147,191 (2009 – \$344,521).

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 September 2005 to March 2007, options granted vested over a period of three years with 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 directors, 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, except for options granted to directors, which vest 12 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:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance – Beginning of year	702,800	9.01	1,035,500	9.64
Granted	-	-	175,000	5.89
Exercised	-	-	-	-
Forfeited	(60,900)	9.22	(402,800)	9.62
Expired	(47,000)	9.90	(104,900)	7.75
Balance – End of year	594,900	8.92	702,800	9.01

The following tables summarize information about stock options outstanding as at March 31, 2010:

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	132,500	3.04	5.89	20,000	5.89
9.00–11.15	462,400	1.73	9.78	229,900	10.07
	594,900	2.02	8.92	249,900	9.74

The fair value of the share purchase options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	Nil	3.1%
Expected life of options	Nil	3 to 5 years
Volatility	Nil	32.9%
Dividend rate	Nil	Nil
Weighted average fair value of options granted per unit	Nil	\$1.60

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 (loss) per share:

	2010	2009
Weighted average number of shares outstanding		
Basic	13,939,109	14,261,939
Dilutive effect of stock options	-	-
Diluted	13,939,109	14,261,939

Options to purchase 594,900 shares (2009 – 702,800) at a weighted average exercise price of \$8.92 per share (2009 – \$9.01) 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.

9 Technology

	2010 \$	2009 \$
Gross research and development expenses	8,976,317	9,958,018
Research and development tax credits	(307,282)	(203,188)
New Economy Tax Credits	(1,310,217)	(1,540,827)
Capitalized internally developed software and websites	7,358,818 (204,605)	8,214,003 (1,863,213)
Amortization of internally developed software and websites	7,154,213 420,245	6,350,790 1,991,002
	7,574,458	8,341,792

10 Commitments

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

	\$
2011	1,540,076
2012	1,545,259
2013	1,467,054
2014	1,365,677
2015	915,303
Thereafter	1,413,302

11 Income taxes

Certain figures for the year ended March 31, 2009 have been restated following the adoption of new accounting standards (note 2).

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

	2010 \$	2009 \$
Current	2,871,856	(880,791)
Future	1,318,838	(3,283,857)
	4,190,694	(4,164,648)

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

	2010 %	2009 %
Weighted average statutory income tax rate	30.7	30.9
Increase (decrease) resulting from		
Geographical distribution of taxable profits	0.4	0.9
Non-deductible stock-based compensation	1.3	(2.6)
Non-taxable foreign exchange gain	(3.3)	3.7
Non-deductible foreign exchange loss	4.5	-
Unrecognized benefit of foreign exchange loss	-	(1.1)
Non-deductible expenses	1.6	(6.5)
Reversal of reserve for an uncertain tax position	-	31.7
Effect of change in statutory rate on future income taxes	0.1	(2.2)
Effect of exchange revaluation of future income taxes	21.5	22.1
Prior year's tax adjustments and assessments	5.6	(0.3)
Other	-	(0.3)
Effective tax rate	62.4	76.3

c) Future income tax balances are summarized as follows:

	2010 \$	2009 \$
Future income tax assets		
Premises and equipment and intangible assets	380,870	1,155,902
Amounts not currently deductible	188,408	103,537
Change in unrealized foreign exchange gains and losses	-	408,054
Net operating losses of US subsidiaries	15,230,757	18,341,673
	15,800,035	20,009,166
Valuation allowance	(10,244,338)	(12,291,849)
	5,555,697	7,717,317
Future income tax liabilities		
Tax credits	(429,978)	(926,117)
Change in unrealized foreign exchange gains and losses	(175,901)	-
	(605,879)	(926,117)
Net future income tax assets	4,949,818	6,791,200
Presented as:		
Current asset	-	346,643
Long-term asset	5,684,486	7,534,120
Current liability	(605,880)	(999,380)
Long-term liability	(128,788)	(90,183)

As at March 31, 2010, the Company's US subsidiaries have accumulated net operating losses at the federal level of approximately US\$40,668,841 (\$41,303,275) 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\$27,034,441 (\$27,456,178) has been provided for pre-acquisition net operating loss carryforwards for which realization is not more likely than not.

In addition, the Company's US subsidiaries have accumulated net operating losses at the state level of approximately US\$44,140,758 (\$44,829,354) which may be carried forward and used to reduce taxable income in future years. Such losses expire beginning in fiscal 2010 through fiscal 2028. A valuation allowance has been provided with respect to approximately US\$36,811,758 (\$37,386,022) of these net operating losses.

12 Related party transactions

Details of related party transactions not otherwise disclosed in the consolidated financial statements are as follows:

	2010 \$	2009 \$
Revenues		
Joint ventures	654,344	1,204,763
Accounts receivable from		
Joint ventures	90,454	121,106
Accounts payable to		
Joint ventures	-	12,770

Balances and transactions with the joint ventures represent the amounts corresponding to the Company's interest therein.

All related party transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration agreed upon by the parties.

For the year ended March 31, 2010, revenues from joint ventures no longer include amortization of gains on licenses derived from the creation of Polygon DMCC (2009 – \$478,562).

During the fiscal year, the Company paid a management fee of \$588,167 (2009 – \$65,000) 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.

13 Changes in non-cash working capital items and Other income (expense)

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

	2010 \$	2009 \$
Decrease (increase) in		
Accounts receivable	2,000,296	(181,261)
Income taxes receivable	758,026	(758,026)
Tax credits receivable	1,805,397	(1,491,964)
Prepaid expenses	127,225	58,062
Increase (decrease) in		
Accounts payable and accrued liabilities	474,442	(628,068)
Income taxes payable	389,945	(1,614,519)
Deferred revenues	(662,086)	1,114,665
	4,893,245	(3,501,111)

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.

b) Other income (expense) consists of the following:

	2010 \$	2009 \$
Interest income	86,908	516,107
Financial expense	(194,047)	(219,233)
Foreign exchange gain (loss)	(2,519,426)	2,212,723
Other expense	(132,651)	(210,455)
	(2,759,216)	2,299,142

14 Segment information

The Company has only one reportable segment.

Geographical information is as follows:

	2010		2009	
	Revenues \$	Premises and equipment, intangible assets, acquired intangible assets and goodwill \$	Revenues \$	Premises and equipment, intangible assets, acquired intangible assets and goodwill \$
Canada	18,761,608	3,850,652	17,405,493	4,714,898
United States	20,500,012	27,084,640	22,116,701	27,757,511
Europe	2,232,833	-	2,653,350	-
Asia and other	4,230,959	48,325	5,764,877	85,578
	45,725,412	30,983,617	47,940,421	32,557,987

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

15 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, henceforth, payment of dividends. Thus, on November 10, 2009, the Company adopted a dividend policy intended to pay at least \$0.10 per share on a semi-annual basis. 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.

Other than the new dividend policy, 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.

16 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 future 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, 2010 are as follows:

	US\$	€
Cash and cash equivalents	5,716,734	19,804
Cash held for the benefit of others	3,964,453	-
Accounts receivable	2,652,773	8,207
Accounts payable and accrued liabilities	(6,513,616)	-
Net position in foreign currency	5,820,344	28,011
Net position in Canadian dollars	5,911,141	38,479

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

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

2009				
Buy currency	Sell currency	Notional amount US\$	Weighted average rate	Maturity (fiscal year)
CA\$	US\$	8,060,000	1.1192	2010

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

The fair value of these forward contracts of \$573,903 (US\$565,088) reflects the estimated amounts that the Company would have to pay to settle the contracts as at March 31, 2010 using relevant market rates. This amount is included in accounts receivable. In fiscal 2009, an amount of \$1,121,823 (US\$890,194) is included in accounts payable and accrued liabilities. This financial instrument is classified under Level 2 of the fair value hierarchy.

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:

	US\$	€
Net earnings	(63,320)	(1,924)
Other comprehensive income	412,301	-

A weakening of 5% of the Canadian dollar against the various currencies 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 earn interest at market rates.

As at March 31, 2010, the Company's exposure to interest rate risk is on its cash and cash equivalents whose interest rates vary from 0% to 0.75%. If interest rates as at March 31, 2010 had been 0.5% higher or 0.5% lower, the impact on net earnings would have been insignificant.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company is not subject to significant interest rate risk with respect to financial assets and financial liabilities due to their short-term maturity.

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 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:

	2010 \$	2009 \$
Beginning of year	(518,619)	(360,228)
Credit (charge) for the year	(18,836)	(158,391)
End of year	(537,455)	(518,619)

As at March 31, 2010, the aging analysis of trade accounts receivable, all of which are overdue, and the derivative financial instrument assets are as follows:

	\$
1–30 days	2,482,815
31–60 days	1,629,921
61–90 days	136,321
Over 90 days	230,138
Total – Past due trade receivables	4,479,195
Derivative financial instrument assets	
Forward foreign currency contracts	573,903
Total accounts receivable	5,053,098

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's financial liabilities, which consist of accounts payable and accrued liabilities, are due within 12 months or less.

Fair value

Cash and cash equivalents and cash held for the benefit of others are carried at fair value. These financial instruments are classified under Level 1 of the fair value 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.

17 Comparative figures

Certain figures for fiscal year 2009 have been reclassified in order to conform to the basis of presentation adopted in the current year.