

Consolidated Financial Statements  
(Expressed in Canadian Dollars)



Years ended August 31, 2013 and August 31, 2012

## MANAGEMENTS' STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of People Corporation ("the Company"):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditor. The primary function of the Audit Committee is to assist the Board in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Company to regulatory authorities and shareholders, the Company's systems of internal controls regarding finance and accounting, and the Company's accounting and financial reporting processes. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditor have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

/s/ Laurie Goldberg  
**Mr. Laurie Goldberg, CA**  
Director & Chief Executive Officer

/s/ Brevan Canning  
**Mr. Brevan Canning, CGA**  
Vice President of Finance

## Independent Auditors' Report

To the Shareholders of People Corporation and its subsidiaries:

We have audited the accompanying consolidated financial statements of People Corporation and its subsidiaries which comprise the consolidated statements of financial position as at August 31, 2013 and August 31, 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended August 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of People Corporation and its subsidiaries as at August 31, 2013 and August 31, 2012 and their financial performance and their cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with International Financial Reporting Standards.

December 4, 2013  
Toronto, Ontario



Chartered Professional Accountants  
Licensed Public Accountants



# PEOPLE CORPORATION

Consolidated Statements of Financial Position

As at August 31, 2013 and August 31, 2012

	Note	August 31, 2013	August 31, 2012
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 2,449,169	\$ 3,199,643
Trade and other receivables	5	2,896,632	2,573,125
Other current assets		388,383	430,873
<b>Total current assets</b>		<b>5,734,184</b>	<b>6,203,641</b>
Non-current assets:			
Property and equipment	6	990,894	840,670
Goodwill and intangible assets	7	46,876,735	18,298,134
Deferred tax asset	12	134,464	181,064
<b>Total non-current assets</b>		<b>48,002,093</b>	<b>19,319,868</b>
<b>Total assets</b>		<b>\$ 53,736,277</b>	<b>\$ 25,523,509</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Trade payables, accrued and other liabilities	8	\$ 4,522,278	\$ 3,684,621
Deferred revenue	9	3,792,348	4,098,533
Income taxes payable	12	112,240	226,651
Current portion of loans and borrowings	11	3,804,077	465,351
<b>Total current liabilities</b>		<b>12,230,943</b>	<b>8,475,156</b>
Accrued and other liabilities	8	993,070	57,398
Deferred revenue	9	89,299	150,518
Non-controlling interest put options	4	6,172,884	-
Loans and borrowings	11	15,445,258	1,754,340
Deferred tax liability	12	4,628,201	1,326,727
<b>Total liabilities</b>		<b>39,559,655</b>	<b>11,764,139</b>
Shareholders' equity:			
Share capital	13	12,024,732	11,990,956
Contributed surplus		774,245	650,878
Retained earnings		1,377,645	1,117,536
<b>Total shareholders' equity</b>		<b>14,176,622</b>	<b>13,759,370</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 53,736,277</b>	<b>\$ 25,523,509</b>

## Commitments and contingencies (Note 18)

### ON BEHALF OF THE BOARD OF DIRECTORS

/s/ "Scott Anderson"  
Director, Chair of the Audit Committee

/s/ "Laurie Goldberg"  
Director, Chief Executive Officer

The notes on pages 6 to 31 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Consolidated Statements of Comprehensive Income

For the years ended August 31, 2013 and August 31, 2012

	Note	Year ended August 31, 2013	Year ended August 31, 2012
Revenue			
Commissions		\$ 17,433,232	\$ 12,829,814
Fees and other revenues		15,458,927	14,327,571
		32,892,159	27,157,385
Operating expenses			
Personnel	23	21,056,253	17,740,775
General and administrative		6,763,330	5,957,044
Advertising and promotion		1,245,111	1,161,615
	23	29,064,694	24,859,434
Income before undernoted		3,827,465	2,297,951
Finance and other income (costs):			
Amortization of intangible assets		(1,242,131)	(901,135)
Finance expenses	15	(930,783)	(336,787)
Acquisition costs	4	(966,018)	-
		(3,138,932)	(1,237,922)
<b>Net income before income taxes</b>		<b>688,533</b>	<b>1,060,029</b>
Income tax expense:			
Current	12	711,149	454,910
Deferred	12	(282,725)	(121,034)
		428,424	333,876
<b>Net income and comprehensive income</b>		<b>\$ 260,109</b>	<b>\$ 726,153</b>
Earnings per share	13(c)		
Basic		\$ 0.008	0.022
Diluted		\$ 0.008	0.022

The notes on pages 6 to 31 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Consolidated Statements of Changes in Equity

For the years ended August 31, 2013 and August 31, 2012

	Share Capital	Contributed Surplus	Retained Earnings	Total
<b>Balance, August 31, 2011</b>	<b>\$ 11,990,956</b>	<b>\$ 547,744</b>	<b>\$ 391,383</b>	<b>\$ 12,930,083</b>
Net Income and comprehensive income for the year	-	-	726,153	726,153
Transactions with shareholders, recorded directly in shareholders' equity				
Share-based payments	-	103,134	-	103,134
<b>Total transactions with shareholders</b>	<b>\$ -</b>	<b>\$ 103,134</b>	<b>\$ 726,153</b>	<b>\$ 829,287</b>
<b>Balance, August 31, 2012</b>	<b>\$ 11,990,956</b>	<b>\$ 650,878</b>	<b>\$ 1,117,536</b>	<b>\$ 13,759,370</b>
	Share Capital	Contributed Surplus	Retained Earnings	Total
<b>Balance, August 31, 2012</b>	<b>\$ 11,990,956</b>	<b>\$ 650,878</b>	<b>\$ 1,117,536</b>	<b>\$ 13,759,370</b>
Net Income and comprehensive income for the year	-	-	260,109	260,109
Transactions with shareholders, recorded directly in shareholders' equity				
Exercise of stock options	33,776	(13,510)	-	20,266
Share-based payments	-	136,877	-	136,877
<b>Total transactions with shareholders</b>	<b>33,776</b>	<b>123,367</b>	<b>260,109</b>	<b>417,252</b>
<b>Balance, August 31, 2013</b>	<b>\$ 12,024,732</b>	<b>\$ 774,245</b>	<b>\$ 1,377,645</b>	<b>\$ 14,176,622</b>

The notes on pages 6 to 31 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Consolidated Statements of Cash Flows

For the years ended August 31, 2013 and August 31, 2012

	Note	Year ended August 31, 2013	Year ended August 31, 2012
<b>Operating activities</b>			
Net income for the year		\$ 260,109	\$ 726,153
Adjustments for:			
Depreciation	6	379,967	309,293
Amortization of intangible assets	7	1,242,131	901,135
Share-based compensation		136,877	103,134
Non-controlling interest put option fair value adjustment		123,220	-
Accretive interest expense		163,426	-
Loss from disposal of capital assets		3,045	-
Deferred tax expense (recovery)		(282,725)	(121,034)
<b>Net cash from operations</b>		<b>2,026,050</b>	<b>1,918,681</b>
Change in the following:			
Trade and other receivables		167,912	635,358
Other current assets		139,101	(117,214)
Trade payables, accrued and other liabilities		(277,379)	(314,829)
Deferred revenue		(367,404)	579,919
Deferred tax liability		(221,265)	119,610
<b>Net cash from (used by) working capital items</b>		<b>(559,035)</b>	<b>902,844</b>
<b>Net cash from operating activities</b>		<b>1,467,015</b>	<b>2,821,525</b>
<b>Investing activities</b>			
Proceeds from disposal of property and equipment		300	-
Acquisition of subsidiary, net of cash and cash equivalents acquired		(13,991,842)	-
Acquisition of property and equipment		(395,470)	(165,056)
Acquisition of intangible assets		(198,205)	-
<b>Net cash used in investing activities</b>		<b>(14,585,217)</b>	<b>(165,056)</b>
<b>Financing activities</b>			
Proceeds from exercise of stock options		20,266	-
Proceeds from loans and borrowings		13,150,000	109,343
Repayment of loans and borrowings		(802,538)	(853,910)
<b>Net cash from (used) in financing activities</b>		<b>12,367,728</b>	<b>(744,567)</b>
Net increase (decrease) in cash and cash equivalents		(750,474)	1,911,902
Cash and cash equivalents at beginning of the year		3,199,643	1,287,741
<b>Cash and cash equivalents at the end of the year</b>		<b>\$ 2,449,169</b>	<b>\$ 3,199,643</b>

The notes on pages 6 to 31 are an integral part of these consolidated financial statements.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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## 1. Reporting entity:

People Corporation, (the "Company") was incorporated under the Ontario Business Corporations Act on July 5, 2006. The Company is a public company listed on the TSX Venture Exchange (the "TSX-V"), trading under the "PEO" symbol and is domiciled in Canada. The address of the Company's head office is 360 Main Street, Suite 1800, Winnipeg, Manitoba, Canada and the Company's registered office is 180 Bay Street, Suite 4400, Toronto, Ontario, Canada. These consolidated financial statements of the Company comprise accounts of the Company and its subsidiaries. The Company is primarily involved in the delivery of employee group benefit consulting, pension consulting and third-party benefits administration services, as well as, recruiting services, strategic human resources consulting and career management services to help companies recruit, retain and reward employees (Note 21).

These consolidated financial statements were approved by the Board of Directors and authorized for issue on December 4, 2013.

## 2. Basis of presentation:

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### (b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- financial instruments at fair value through profit or loss are measured at fair value
- equity settled share-based payment awards are measured at fair value at grant date

### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries functional currency. All financial information presented has been rounded to the nearest dollar except where indicated otherwise.

### (d) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of these financial statements and reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

The preparation of our Consolidated Financial Statements requires us to make estimates and judgments that affect the application of policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates. Areas of significant accounting estimates and judgments include determination of fair value of financial instruments, impairment of financial instruments, impairment of goodwill and intangible assets, and taxes. We also use judgment when determining functional currencies, contingencies, restructuring, non-current assets and the determination of fair value of share-based payments. Details on the estimates and judgments are further described in the relevant accounting policies in these Notes.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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Provisions are recognized for present legal or constructive obligations as a result of a past event, if it is probable that they will result in an outflow of economic resources and the amount can be reliably estimated. The amounts recognized for these provisions are the best estimates of the expenditures required to settle the present obligations or to transfer them to a third party at the statement of financial position date, considering all the inherent risks and uncertainties, as well as the time value of money. These provisions are reviewed as relevant facts and circumstances change.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

#### (a) Basis of consolidation

##### (i) Business combinations

For acquisitions, the Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company recognizes liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in profit or loss for the period.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

##### (ii) Subsidiaries

Subsidiaries are entities controlled by the Company or a subsidiary of the Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

##### (iii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any realized or unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing these consolidated financial statements.

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## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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### (b) Financial instruments

#### (i) Non-derivative financial assets

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value, with gains and losses recognized in net income/loss. Cash and cash equivalents are classified as FVTPL.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash and cash equivalents flows from the asset expire, or it transfers the rights to receive the contractual cash and cash equivalents flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a currently enforceable legal right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### (ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

#### (iii) Non-derivative financial liabilities

Financial liabilities classified as fair value through profit and loss ("FVTPL") are measured at fair value, with gains and losses recognized in net income/loss. Non-controlling interest put option is classified as FVTPL.

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, accounts payable, accrued and other liabilities.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

#### (iv) Share capital

Common voting shares are classified as equity. Incremental costs directly attributable to the issue of common voting shares are recognized as a deduction from equity, net of any tax effects.

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# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

**(c) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statements of comprehensive income in the period in which they are incurred.

**(ii) Depreciation**

Depreciation is recognized in the consolidated statements of comprehensive income over the estimated useful lives of each part of an item of property and equipment in a manner which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Furniture and fixtures	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	Shorter of useful life or term of the lease
Computer software	Straight-line	4 years
Software licenses	Straight-line	Shorter of useful life or term of the license

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(d) Goodwill and intangible assets**

**(i) Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**(ii) Intangible assets**

Intangible assets consist of acquired brands, customer relationships and contracts. Intangible assets acquired separately are measured on initial recognition at cost. The cost of identifiable intangible assets acquired in a business combination is equal to fair value as at the date of acquisition. Following initial recognition, identifiable intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Definite life intangible assets are amortized from the date of acquisition or, for internally developed assets, from the time the asset is available for use. Amortization is recognized in the consolidated statements of comprehensive income either on a declining balance or on a straight-line basis over the estimated useful life of the asset, and the residual values and useful lives of the assets are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets are considered to have indefinite lives where management believes that there is no foreseeable limit to the period over which the intangible assets are expected to generate net cash flows.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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### (e) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Imputed interest on the lease payments is charged against income. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leases not meeting the criteria for finance leases are operating leases and the related assets are not recognized in the Company's consolidated statements of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (f) Impairment

#### (i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash and cash equivalents flows of that asset that can be estimated reliably.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash and cash equivalents flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against assets. Interest on the impaired asset continues to be recognized using the effective interest rate method. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed up to the amount of original cost through profit or loss.

#### (ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash and cash equivalents-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash and cash equivalents flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash and cash equivalents inflows from continuing use that are largely independent of the cash and cash equivalents inflows of other assets or groups of assets (the "cash and cash equivalents-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

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## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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The Company's corporate assets do not generate separate cash and cash equivalents inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(g) Trade payables, accrued and other liabilities**

Trade payables include obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less and are recognized initially at fair value and subsequently measured at amortized cost.

Accrued liabilities include accruals for salaries and compensation, and other obligations incidental to the Company's normal business operations. They are classified as current when it is expected to be settled within one year of the reporting period date, and are recognized initially at fair value and subsequently measured at amortized cost.

**(h) Deferred revenue**

Deferred revenue represents the excess of retainer amounts billed over costs incurred and revenue earned on service contracts.

**(i) Insurance premium liabilities and related cash and cash equivalents**

In its capacity as consultants, the Company collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance carriers. As the Company is acting in its capacity as consultants to collect and remit premiums from insurers to insurance underwriters, the Company is considered to have a legal right to offset premiums collected and corresponding liabilities. As such, the cash and cash equivalents and investment balances relating to these liabilities have been offset against the related liability in the Company's consolidated statements of financial position.

**(j) Employee benefits**

**(i) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash and cash equivalents bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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### (ii) Share-based payment transactions

Share-based payments are comprised of equity-settled stock options and equity settled Share Ownership plan. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The grant date fair value of share-based payment awards granted to employees as a personnel expense, with a corresponding increase in equity, over the period that the options vest. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no reconciliation for differences between expected and actual outcomes.

The Company's contributions under its employee Share Ownership plan are expensed as incurred.

Equity-settled share based payments to non-employees are measured at the fair value of the goods and services received unless that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted and measured at the date the Company obtains the good or the counter party renders the service.

### (k) Revenue Recognition

Revenue includes fees and commissions generated from administrative, advisory and consulting services provided to clients.

Generally, revenue from the rendering of services is recognized when the following criteria are met:

- The amount of revenue can be reliably measured;
- The stage of completion of services can be reliably measured;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred can be reliably measured.

Concurrently with the above general principles, the Company applies the following specific revenue recognition policies:

Group benefit commission revenue from clients where advisory services and plan administration services are provided by the Company is generally received in advance are recorded as deferred revenue. Commission advances are recognized in income on a monthly basis based on the number of months for which the commission revenue was advanced, net of a provision for return commissions due to policy cancellation and adjustments. The provision is determined based on historical data.

Group benefit commission revenue from clients where the Company provides only advisory services are recognized in income at the effective or renewal date of the policy, net of a provision for return commissions due to policy cancellation and adjustments. The provision is determined based on historical data.

Fee revenue from administrative and consulting services are recognized as services are provided.

For fee revenue that is contingent on certain criteria being met, the revenue is not recognized until criteria has been met.

All other revenues are recognized as services are rendered by the Company. Other revenue includes investment income recorded on the accrual basis of accounting.

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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### (l) Finance income and finance costs

Finance income comprises interest income on funds invested which is recognized as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings which are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### (m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (n) Earnings per share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible notes and share options granted to employees.

### (o) New Standards and interpretations not yet adopted

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

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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### **IFRS 9, “Financial Instruments”**

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

### **IFRS 10, “Consolidation”**

IFRS 10, “Consolidation” replaces SIC-12, “Consolidation - Special Purpose Entities” and parts of IAS 27, “Consolidated and Separate Financial Statements”. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### **IFRS 11, “Joint Arrangements”**

IFRS 11 supersedes IAS 31, “Interests in Joint Ventures”, and SIC-13, “Jointly Controlled Entities - Non-monetary Contributions by Venturers”. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas, for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. The standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### **IFRS 12, “Disclosure of Interests in Other Entities”**

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard introduces additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### **IFRS 13, “Fair Value Measurement”**

IFRS 13 is a comprehensive standard that defines fair value, sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. This new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The standard also establishes disclosures about fair value measurement. The standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### **Amendments to Other Standards**

Amendments to IAS 19 eliminate an entity’s option to defer the recognition of certain gains and losses related to post-employment benefits and require re-measurement of associated assets and liabilities in other comprehensive income. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

The amended IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13 as described above. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted.

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## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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The Company anticipates that the application of IFRS 9 may have impact on the amounts reported in respect of the Company's financial assets. However, it is not yet practicable to provide a reasonable estimate of that effect. The Company anticipates that the application of the other new and revised standards and amendments, including IFRS 10, IFRS 11, IFRS 12 and IFRS 13, are not expected to have a material impact on the results and the financial position of the Company.

#### 4. Business acquisitions:

During the year ended August 31, 2013, the Company acquired the following businesses:

- Effective September 1, 2012 the Company acquired all of the issued and outstanding shares of JSL Inc. ("JSL"), a company that provides employee benefit solutions, consulting services and practical health management programs to its clients.
- Effective November 1, 2012, the Company acquired all of the issued and outstanding shares of Prosure Group Administrators Ltd. and Prosure Insurance Agencies Ltd. (collectively "Prosure"). Prosure provides employee benefit solutions, consulting services and third party administration services to mid-market corporate clients.
- Effective December 3, 2012 the Company acquired all of the issued and outstanding common shares and special shares of Bencom Financial Service Group Inc. ("Bencom"), a company that provides employee benefit solutions, group retirement solutions and individual benefit solutions to its clients.

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

- Effective July 9, 2013 the Company acquired all of the issued and outstanding common shares of H+P Consulting Corporation ("H+P") which wholly owns Employee Benefits Inc. ("EBI"), Disability Concepts Inc. ("DCI") and 6814409 Canada Incorporated ("681") which operate under the brand Hamilton + Partners. H+P provides group benefits and disability insurance consulting services to its clients.

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

The Company has accounted for these transactions as business combinations and has applied the acquisition method of accounting in accordance with IFRS 3. The recognized amounts of assets acquired and liabilities assumed in the transactions and the acquisition-date fair value of the total consideration transferred are as follows:

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Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

	Hamilton + Partners	Bencom	Other Acquisitions	Total
<b>Assets</b>				
Cash	\$ 252,543	\$ 128,012	\$ 234,914	\$ 615,469
Accounts receivable and other assets	160,878	196,890	50,155	407,923
Property and equipment	109,847	14,756	13,460	138,063
Other long-term assets	57,310	-	-	57,310
Customer relationships	10,814,000	1,660,000	1,170,000	13,644,000
Goodwill	11,603,671	3,588,548	786,304	15,978,523
Deferred tax liability	(2,880,850)	(439,900)	(310,050)	(3,630,800)
Accounts payable and accrued liabilities	(510,051)	(439,347)	(198,321)	(1,147,719)
	19,607,348	4,708,959	1,746,462	26,062,769
<b>Consideration</b>				
Cash payment on closing	10,311,068	3,435,907	860,334	14,607,309
Working capital adjustment due to vendors	(132,023)	75,000	-	(57,023)
Promissory note payable	3,186,686	498,637	886,128	4,571,451
Non-controlling interest put option	5,310,044	699,415	-	6,009,459
Contingent consideration	931,573	-	-	931,573
	\$ 19,607,348	\$ 4,708,959	\$ 1,746,462	\$ 26,062,769

Amounts recognized as promissory notes payable represent the estimated fair value of the promissory notes of \$287,257 for JSL, \$700,000 for Prosure, \$564,093 for Bencom, and \$3,605,000 for H+P, as well as the estimated contingent consideration expected to be paid were fair valued using a discount rate of 6.43%. Total consideration paid is subject to final adjustments for working capital and contingent consideration based on earnings of Prosure in each of the first and second years ending after the date of acquisition.

Amounts recognized as contingent consideration represent the estimated present value of \$1,308,793 for potential additional future consideration based on achieving financial targets for H+P.

The Company's consolidated statements of comprehensive income include the result of operations for JSL, Prosure, Bencom, and H+P from their respective dates of acquisition to August 31, 2013.

	August 31, 2013	
	As reported	Pro forma
<b>Operating revenues</b>		
H+P	\$ 525,473	\$ 6,200,328
Bencom	\$ 1,750,241	\$ 2,386,358
Other acquisitions	\$ 1,377,399	\$ 1,457,250
<b>Net income and comprehensive income (loss)</b>		
H+P	\$ 67,843	\$ 1,334,785
Bencom	\$ 484,016	\$ 475,950
Other acquisitions	\$ 281,569	\$ 303,585

Pro forma balances represent management's estimates of consolidated revenue and consolidated net income as if the acquisitions had been completed on September 1, 2012. For the purposes of these pro forma balances, comprehensive income is equal to net income. Acquisition-related costs amounting to \$966,018 are not included as part of the

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

consideration transferred and have been recognized as acquisition costs in the consolidated statements of comprehensive income.

### Non-controlling interest Put Options

In connection with the Bencom and H+P acquisition, the Company entered into agreements whereby the vendors' hold an economic interest, which includes performance-based commissions and fees, which may be acquired by People through exercise of non-controlling interest put options in the future, subject to certain terms and conditions.

The liability recognized in connection with the Bencom Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of Bencom, the estimated future exercise dates and other factors. The fair value of the liability associated with the Bencom Put Options as at August 31, 2013 was \$756,640 (August 31, 2012 - *nil*). The Bencom Put Option is restricted during the first three years of the agreement but then may be exercisable at any time by the non-controlling shareholder(s).

The liability recognized in connection with the H+P Put Option has been determined based on a pre-determined formula defined in an agreement which is based on a multiple of estimated future earnings of H+P, the estimated future exercise dates and other factors. The fair value of the liability associated with the H+P Put Option as at August 31, 2013 was \$5,416,245 (August 31, 2012 - *nil*). The H+P Put Option is restricted during the first three years of the agreement but then may be exercisable at any time by the non-controlling shareholder(s).

The fair value of the liability associated with the non-controlling put options is determined by discounting the estimated future payment obligation at each reporting date, and changes in fair value of the estimated liability in future periods will be recorded in finance costs in subsequent consolidated statements of comprehensive income. For the year ended August 31, 2013 the Company recorded an adjustment to the non-controlling interest put options amounting to \$163,426 (2012 - *nil*) to the change in estimated fair value of the liability.

### 5. Trade and other receivables:

	August 31, 2013	August 31, 2012
Trade receivables	\$ 2,896,632	\$ 2,573,125

Retainer amounts for which the related performance conditions have not yet been met are presented as deferred revenue (Note 9). The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 19.

### 6. Property and equipment:

	Note	Leasehold improvements	Furniture and fixtures	Computer equipment	Computer software	Total
<b>Cost</b>						
Balance, September 1, 2011		437,845	703,820	930,223	387,028	<b>2,458,916</b>
Additions		25,467	21,503	85,824	32,262	<b>165,056</b>
Balance, August 31, 2012		463,312	725,323	1,016,047	419,290	<b>2,623,972</b>
Additions		70,703	11,257	179,552	133,958	<b>395,470</b>
Disposals		-	(8,376)	-	-	<b>(8,376)</b>
Acquisition through business combination		6,527	54,013	23,319	54,204	<b>138,063</b>
Balance, August 31, 2013		540,542	782,217	1,218,918	607,452	<b>3,149,129</b>

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

	Note	Leasehold improvements	Furniture and fixtures	Computer equipment	Computer software	Total
<b>Depreciation and impairment losses</b>						
Balance, September 1, 2011		(230,193)	(434,478)	(579,118)	(230,217)	<b>(1,474,006)</b>
Depreciation for the year		(75,454)	(55,200)	(116,225)	(62,414)	<b>(309,293)</b>
Balance, August 31, 2012		\$ (305,647)	\$ (489,678)	\$ (695,343)	\$ (292,631)	<b>\$ (1,783,299)</b>
Depreciation for the year		(88,473)	(53,095)	(127,525)	(110,874)	<b>(379,967)</b>
Disposals		-	(5,031)	-	-	<b>(5,031)</b>
Balance, August 31, 2013		(394,120)	(537,742)	(822,868)	(403,505)	<b>(2,158,235)</b>
<b>Carrying amounts</b>						
Balance, August 31, 2012		\$ 157,665	\$ 235,643	\$ 320,703	\$ 126,659	<b>\$ 840,670</b>
Balance, August 31, 2013		\$ 146,422	\$ 244,475	\$ 396,050	\$ 203,947	<b>\$ 990,894</b>

## 7. Goodwill and intangible assets:

	Note	Goodwill	Customer relationships	Customer contracts	Total
<b>Cost</b>					
Balance, September 1, 2011		\$ 13,547,835	\$ 5,961,351	\$ 3,000,000	\$ 22,509,186
Balance, August 31, 2012		13,547,835	5,961,351	3,000,000	<b>22,509,186</b>
Additions		26,200	38,001	134,008	<b>198,209</b>
Acquisition through business combination	4	15,978,523	13,644,000	-	<b>29,622,523</b>
Balance, August 31, 2013		\$ 29,552,558	\$ 19,643,352	\$ 3,134,008	<b>\$ 52,329,918</b>
<b>Amortization and impairment losses</b>					
Balance, September 1, 2011		\$ -	\$ (2,059,917)	\$ (1,250,000)	<b>\$ (3,309,917)</b>
Amortization for the year		-	(601,135)	(300,000)	<b>(901,135)</b>
Balance, August 31, 2012		-	(2,661,052)	(1,550,000)	<b>(4,211,052)</b>
Amortization for the year		-	(938,759)	(303,372)	<b>(1,242,131)</b>
Balance, August 31, 2013		\$ -	\$ (3,599,811)	\$ (1,853,372)	<b>\$ (5,453,183)</b>
<b>Carrying amounts</b>					
Balance, August 31, 2012		\$ 13,547,835	\$ 3,300,299	\$ 1,450,000	<b>\$ 18,298,134</b>
Balance, August 31, 2013		\$ 29,552,558	\$ 16,043,541	\$ 1,280,636	<b>\$ 46,876,735</b>

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

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

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

	August 31, 2013	August 31, 2012
Trade payables and other liabilities	\$ 4,507,749	\$ 3,645,066
Contingent consideration	950,204	-
Deferred lease inducements	57,395	96,955
	\$ 5,515,348	\$ 3,742,021
Less current portion of trade payables, accrued and other liabilities	4,522,278	3,684,621
Long-term portion of accrued and other liabilities	993,070	57,398
Total long-term Trade payables	<b>\$ 993,070</b>	<b>\$ 57,398</b>

The Company's exposure to currency and liquidity risk related to trade payables is disclosed in note 19.

### 9. Deferred revenue:

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

	August 31, 2013	August 31, 2012
Fees received in advance	\$ 3,881,647	\$ 4,249,051
less: current portion of deferred revenue	3,792,348	4,098,533
Long-term portion of deferred revenue	\$ 89,299	\$ 150,518

### 10. Insurance premium liabilities and related cash and cash equivalents:

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

	August 31, 2013	August 31, 2012
Payable to carriers and insured individuals or groups	\$ 14,558,743	\$ 10,882,121
less: related cash and cash equivalents balances	14,558,743	10,882,121
	\$ -	\$ -

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

## 11. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 19.

	August 31, 2013	August 31, 2012
<b>Term loans</b>		
(a) A loan bearing interest of 7% per annum, unsecured, repayable in quarterly installments of principal and interest of \$21,422. The loan matured on September 30, 2012.	-	21,054
(b) A bank loan bearing interest of 4.5% per annum, secured by the assets of the Company, repayable in monthly installments of \$11,161. The loan matured November 30, 2012.	-	33,214
(c) A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of \$90,000 plus accrued interest. The loan matures May 31, 2018	1,710,000	2,070,000
(d) A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of principal of \$133,929 plus accrued interest. The loan matures December 31, 2019.	3,482,143	-
(e) A bank loan bearing interest of prime plus 1.5% per annum, secured by the assets of the Company, repayable in quarterly installments of principle of \$335,714 plus accrued interest. The loan matures July 8, 2020.	9,400,000	-
<b>Total term loans</b>	<b>14,592,143</b>	<b>2,124,268</b>
<b>Vendor-take-back loans</b>		
(f) A group of vendor-take-back loans bearing no interest per annum, secured by the assets of the Company, repayable in monthly installments. The loans matured on February 1, 2013.	-	11,924
(g) A non-interest bearing loan, unsecured, repayable in monthly installments of \$1,933. The loan matures on September 1, 2013.	899	23,793
(h) A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in two annual instalments of \$350,000. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on October 1, 2014.	672,019	-

**PEOPLE CORPORATION**

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

(i) A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in three annual instalments of \$181,031. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on December 1, 2015.	520,386	-
(j) A vendor-take-back loan bearing no interest per annum, unsecured, payable in monthly instalments of \$5,224. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on August 1, 2017.	200,109	-
(k) A vendor-take-back loan bearing no interest per annum, secured by the assets of the Company, payable in three annual instalments of \$1,201,667. The amortized cost of the loan has been discounted using a rate equal to 6.43%. The loan matures on June 9, 2016.	3,220,838	-
<b>Total vendor-take-back loans</b>	4,614,251	35,717
<b>Finance lease liabilities</b>		
(l) A finance lease repayable in monthly installments of \$939 and secured by the assets to which the obligation relates. The lease expires August 1, 2015 and includes implicit interest rates ranging from 8.65%.	18,254	26,265
(m) A finance lease repayable in monthly installments of \$1,074 and secured by the assets to which the obligation relates. The lease expires December 1, 2015 and includes implicit interest rates ranging from 11.28%.	24,687	33,441
<b>Total finance lease liabilities</b>	42,941	59,706
	19,249,335	2,219,691
Less: current portion		
Term loans	2,238,571	436,663
Vendor take-back loans	1,546,978	11,924
Finance lease liabilities	18,528	16,764
	\$ 3,804,077	\$ 465,351
	\$ 15,445,258	\$ 1,754,340

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The Company entered into a Credit Facility Agreement with the Canadian Imperial Bank of Commerce which includes the following components:

1. A \$2 million operating line of credit. As at August 31, 2013, the Company had not utilized this facility (2012 - nil).
2. A \$20 million term revolving acquisition credit facility to fund future acquisitions. The acquisition credit facility is available via loans bearing interest at prime plus 1.5% or via bankers' acceptances bearing periodically fixed interest plus a stamping fee of 2.5% annually. Each draw on the facility will be treated as a separate loan repayable over a period of up to seven years. As at August 31, 2013, the balance owing on this facility was equal to \$12,882,143 (2012 - nil); and
3. A \$2.5 million installment loan which was utilized to repay and discharge a substantial amount of long-term debt facilities and vendor-take-back debt of the Company. The installment loan is being repaid in quarterly installments over a seven year period and bears interest at prime plus 1.5%. As at August 31, 2013, the balance owing on this facility was equal to \$1,710,000 (2012 - \$2,070,000).

The facility is secured by a general security agreement over the assets of the Company and its subsidiaries and is subject to covenants (Note 20).

Finance lease liabilities are payable as follows:

	August 31, 2013				August 31, 2012			
	Future minimum lease payments	Interest	PV of minimum lease payments	Future minimum lease payments	Interest	PV of minimum lease payments		
1-12 months	\$ 22,055	\$ 3,528	\$ 18,528	\$ 22,055	\$ 5,289	\$ 16,766		
13-60 months	26,083	1,670	24,412	48,138	5,198	42,940		
	\$ 48,138	\$ 5,198	\$ 42,940	\$ 70,193	\$ 10,487	\$ 59,706		

## 12. Income Taxes:

	August 31, 2013	August 31, 2012
Net income and comprehensive net income	\$ 688,533	\$ 1,060,029
Statutory tax rate	26.59 %	26.78 %
Income taxes (recovery) at statutory tax rates	183,116	283,858
Adjustments to income taxes		
Non-deductible items	228,177	64,960
Change in rate at which temporary differences are recorded	(2,450)	56,492
Recognition of previously unrecognized tax loss	73,122	-
Other	(53,541)	(71,434)
	428,424	333,876
Current taxes	711,149	454,910
Deferred taxes	(282,725)	(121,034)
	\$ 428,424	\$ 333,876

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The 2013 statutory tax rate differs from the 2012 statutory tax rate because of a change in the provincial allocation of gross revenue and wages.

Significant components of deferred tax assets and liabilities are as follows:

	August 31, 2013	August 31, 2012
<b>Deferred tax assets</b>		
Equity issue and financing costs	\$ 15,442	\$ 37,910
Lease inducements	15,248	25,826
Other reserves	15,665	30,633
Non-capital loss carryforwards	66,037	86,695
Deferred financing costs	22,072	-
	<b>134,464</b>	<b>181,064</b>
<b>Deferred tax liabilities</b>		
Property and equipment	71,415	61,379
Intangible assets	4,556,786	1,265,348
	<b>4,628,201</b>	<b>1,326,727</b>
<b>Net deferred tax liabilities</b>	<b>\$ (4,493,737)</b>	<b>\$ (1,145,663)</b>

Movement in net deferred tax liabilities:

	August 31, 2013	August 31, 2012
Balance, August 31, 2012	\$ (1,145,663)	\$ (1,266,697)
Recognized in the statement of income and comprehensive income	282,725	121,034
Recognized in business acquisitions (Note 4)	(3,630,799)	-
Balance, August 31, 2013	<b>\$ (4,493,737)</b>	<b>\$ (1,145,663)</b>

The Company has non-capital loss carryforwards that expire as follows:

2031	\$ 790
2032	49,729
2033	198,052
	<b>\$ 248,571</b>

## PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

### 13. Share capital

#### (a) Authorized

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

#### (b) Shares issued and outstanding

Shares issued and outstanding are as follows:

	Number of Common voting shares	Amount
Balance, August 31, 2011	32,970,527	\$ 11,990,956
Balance, August 31, 2012	32,970,527	\$ 11,990,956
Exercise of stock options	56,666	33,776
Balance, August 31, 2013	33,027,193	\$ 12,024,732

#### (c) Earnings per share

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

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

The following details the earnings per share, basic and diluted, calculations for the years ended August 31, 2013 and August 31, 2012:

	August 31, 2013	August 31, 2012
Net income attributable to common shares (basic and diluted)	\$ 260,109	\$ 726,153
Weighted average number of common shares (basic)	33,000,604	32,970,527
add: Dilutive effect of stock options	382,229	38,942
Weighted average number of common shares (diluted)	33,382,833	33,009,469
Earnings per share (basic)	\$ 0.008	\$ 0.022
Earnings per share (diluted)	\$ 0.008	\$ 0.022

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

### 14. Share-based payments

On February 23, 2011, at the Annual General Meeting of the Shareholders, the Shareholders re-approved and amended the Stock Option Plan and approved the Company's Employee Share Ownership Plan. Under the terms of the plans, the number of shares issued under the Stock Option Plan and the Employee Share Ownership Plan, as well as all other security based compensation agreements combined cannot exceed 15%, or 4,954,079, of the Company's issued and outstanding shares.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

**(a) Employee share ownership plan**

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

At August 31, 2013, there were 116 participants (2012 – 87) in the plan. The total number of shares purchased during the years ended August 31, 2013 on behalf of participants, including the Company contribution, was 662,591 shares (2012 – 788,834 shares). During the years ended August 31, 2013, the Company's matching contributions totalled 139,282 shares (2012 – 157,814 shares).

**(b) Stock option plan**

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

Changes in the number of options outstanding during the years ended August 31, 2013 and August 31, 2012, are as follows:

	August 31, 2013		August 31, 2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	2,763,142	\$ 0.34	2,891,142	\$ 0.39
Granted	475,000	0.56	800,000	0.41
Exercised	(56,666)	0.36	-	-
Forfeited and expired	(51,667)	0.55	(928,000)	0.55
Balance, end of year	3,129,809	\$ 0.37	2,763,142	\$ 0.34
Options exercisable, end of year	2,166,472		1,811,472	

Options outstanding at August 31, 2013 consist of the following:

Range of exercise prices	Weighted average Outstanding number	remaining contractual life	Weighted average exercise price	Exercisable number
\$ 0.25 - \$ 0.40	2,279,809	1.32 years	\$0.32	1,999,806
\$ 0.41 - \$ 0.50	500,000	3.48 years	\$0.43	166,666
\$ 0.51 - \$ 0.64	350,000	4.67 years	\$0.63	-
\$ 0.25 - \$ 0.64	3,129,809	2.04 years	\$0.34	2,166,472

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The share option compensation expense for options issued to employees was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model (Note 17) with the following weighted average assumptions:

	August 31, 2013	August 31, 2012
Expected option life	5.00 years	5.00 years
Risk-free interest rate	1.37%	1.46%
Dividend yield	nil	nil
Forfeiture rate	6.37%	6.05%
Volatility factor of expected market price of the Company's shares	88.26%	93.78%

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

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

## 15. Finance income and finance costs:

The Company's finance costs for the years ended August 31, 2013 and August 31, 2012 were comprised of the following:

	Note	August 31, 2013	August 31, 2012
Accretion			
vendor-take-back loans	11	\$ 104,589	\$ -
contingent consideration	4	18,631	-
		123,220	-
Non-controlling interest put option adjustment		163,426	-
Interest on long-term debt	11	558,422	354,362
Other finance costs		89,300	29,826
Interest income		(3,585)	(47,401)
		\$ 930,783	\$ 336,787

## 16. Financial instruments:

### Fair Value

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

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

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at August 31, 2013:

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

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

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

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

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

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

## 17. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial instruments and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

### (b) Intangible assets

The fair value of customer contracts and customer relationships is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### (c) Share-based payment transactions

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

**(d) Non-controlling interest put option**

The fair value of the non-controlling interest put option has been determined by discounting estimated future cash flows based on an appropriate discount rate. The estimated future cash flows are calculated based on pre-determined formulas as defined in the purchase agreements which are based on a multiple of estimated future earnings, estimated future exercise dates and other factors.

**18. Commitments and contingencies:**

**(a) Contractual obligations**

The Company leases premises and various office equipment under agreements which expire from December 2012 to February 2018. Future minimum lease payments as at August 31, 2013 are as follows:

Next 12 months	\$	984,964
13 - 24 months		848,518
25 - 36 months		606,443
37 - 48 months		580,176
49 - 60 months		279,173
Thereafter		36,855
	\$	3,336,129

**(b) Contingencies**

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

**19. Financial risk management:**

The Company has exposure to the following risks from its use of financial instruments:

- interest risk
- credit risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim condensed consolidated financial statements.

**(a) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash and cash equivalents 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 and cash equivalents flow interest rate risk. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's term loans bear interest at variable rates and vendor-take-back loans are non-interest bearing. The carrying value of the long term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The Company has identified an exposure to fair value variation in relation to variable interest term loans. The Company does not use financial derivatives to decrease its exposure to interest risk. For the year ended August 31, 2013, a change in interest rate relating to loans and borrowings of 1% would have increased or decreased interest expense by approximately \$108,000 (2012 - \$26,000).

## (b) Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company has experienced few bad debt write offs and accordingly its allowance at August 31, 2013 is nil (2012 - \$812).

Pursuant to their respective payment terms, consolidated accounts receivable are aged as follows as at August 31, 2013:

Current	\$ 2,527,610
31 - 60 days past due	35,146
61 - 90 days past due	161,833
Over 91 days past due	172,043
	2,896,632
Allowance for doubtful accounts	-
	2,896,632

## (c) Liquidity Risk

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they come to maturity or can only do so at excessive costs. Based on the Company's ability to generate cash and cash equivalents flows through its ongoing operations, management believes that cash and cash equivalents flows are sufficient to cover its known operating and capital requirements, as well as its debt servicing costs. The Company manages its cash and cash equivalents resources through ongoing financial forecasts and anticipated cash and cash equivalents flows.

The maturity dates of the Company's financial liabilities as at August 31, 2013 are as follows:

	Carrying amount	Contractual cash flows	Maturing in the next 12 months	Maturing in 13 to 36 months	Maturing in 37 to 60 months	Maturing in more than 60 months
Trade payables	\$ 4,507,749	\$ 4,507,749	\$ 4,507,749	\$ -	\$ -	\$ -
Loans and borrowings	19,249,335	19,729,644	4,060,386	7,756,331	4,423,642	3,489,285
	\$23,757,084	\$24,237,393	\$ 8,568,135	\$ 7,756,331	\$ 4,423,642	\$ 3,489,285

## 20. Capital Management:

The Company views its capital as the combination of its cash and cash equivalents, long-term debt, and shareholders' equity. The Company's primary objective when managing capital is to safeguard the entity's ability to continue as a going concern while supporting the growth of the Company's business through organic growth and new acquisitions.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

The Company manages the capital structure and makes adjustments to it in accordance with the aforementioned objective, as well as taking into consideration changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new or repurchase existing shares and assume new or repay existing debt.

The Company expanded the acquisition component of its existing credit facility agreement with the Canadian Imperial Bank of Commerce from \$10 million to \$20 million. No other changes were made in the objectives, policies or processes for managing capital during the year.

The credit facilities require the Company to maintain certain financial covenants. Management also uses these ratios as key indicators in managing the Company's capital. The Company complied with all the required financial covenants at August 31, 2013.

## 21. Operating segments:

The Company offers human resource consulting, recruitment services, pension advisory services, group benefits Insurance, benefits and pension administration. As at August 31, 2013, on the basis of type of services provided and in accordance with IFRS 8, *Operating Segments*, the Company was represented by and had one reportable segment. The Company operates exclusively within Canada.

## 22. Related parties:

### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Board of Directors and Officers are key management personnel. In addition to their salaries, the Company also provides non-cash and cash equivalents benefits and participation in the Employee Share Ownership Plan (Note 14(a)) and Stock Option Plan (Note 14(b)).

The following table details the compensation paid to key management personnel during the year ended August 31, 2013 and 2012:

	August 31, 2013	August 31, 2012
Salaries, fees and short-term employee benefits	\$ 1,600,152	\$ 1,370,612
Short-term benefits and insurance premiums	21,894	24,245
Share-based payments	83,115	79,204
	\$ 1,705,161	\$ 1,474,061

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

Directors and key management personnel own 30.66% (August 31, 2012 - 26.90%) percent of the voting shares of the Company.

As at August 31, 2013, the Company engages in transactions with Directors and key management personnel of the Company. All the transactions are in the normal course of operations and are measured at the exchanged amount, which is the consideration agreed to by the parties.

# PEOPLE CORPORATION

Notes to the Consolidated Financial Statements

For the years ended August 31, 2013 and August 31, 2012

## 23. Expenses by nature:

The Company's operating expenses for the year ended August 31, 2013 and August 31, 2012 were comprised of the following:

	August 31, 2013	August 31, 2012
Personnel		
Wages, salaries and commissions	\$ 17,450,791	\$ 14,190,325
Bonuses	1,755,832	1,965,567
Short-term benefits and insurance premiums	1,712,753	1,481,749
Share-based payments	136,877	103,134
	21,056,253	17,740,775
Advertising and sponsorships	512,186	491,321
Automobile	292,473	233,317
Administration fees	1,697,491	1,568,739
Depreciation of property and equipment	379,967	309,294
Occupancy	1,718,214	1,315,689
Office supplies and communication	1,176,216	1,123,747
Other	381,809	375,540
Professional fees	886,439	793,005
Public company costs	246,569	285,897
Travel	717,077	622,110
	\$ 29,064,694	\$ 24,859,434

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

Certain employees of the Company participate in a defined contribution pension plan. Contributions to the plan by the Company totaled \$26,822 for the year ended August 31, 2013 (2012 – \$25,683). The amount is included in the salaries, wages and benefits expense in these interim condensed consolidated financial statements.