

CONSOLIDATED FINANCIAL STATEMENTS

Auditor's Report

To the Shareholders of Wellington West Holdings Inc.:

We have audited the consolidated balance sheet of Wellington West Holdings Inc. as at June 30, 2007 and the consolidated statements of earnings and retained earnings and cash flows for the year 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 audit.

We conducted our audit 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 June 30, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants
Winnipeg, Canada
October 1, 2007

WELLINGTON WEST HOLDINGS INC.

Consolidated Balance Sheet

June 30, 2007, with comparative figures for 2006

	2007	2006 (Restated, note 2)
ASSETS		
Cash	\$ 28,754,008	\$ 28,492,481
Funds held in trust (note 3)	111,719,625	78,776,597
Receivable from clients (note 4)	70,091,401	65,112,768
Receivable from carrying broker	85,410,848	48,746,708
Securities owned (note 5)	13,812,344	15,709,470
Other receivables	10,151,583	6,969,620
Prepaid expenses	1,413,651	607,114
Shareholder loans (note 6)	13,675,690	6,664,343
Capital assets (note 7)	3,690,093	2,081,075
Deferred recruitment costs, net of accumulated amortization of \$4,258,619 (2006 – \$2,441,413)	8,749,888	3,802,719
Other assets (note 8)	797,035	846,099
Intangible assets (note 9)	2,673,000	–
Goodwill	6,908,834	7,074,640
	\$ 357,848,000	\$ 264,883,634
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 16,754,406	\$ 22,206,199
Bonuses payable	–	4,351,906
Income taxes payable	3,140,035	2,451,517
Dividends payable	5,451,676	–
Payable to clients (note 4)	260,718,858	188,708,221
Future income taxes	2,125,917	1,044,917
Non-controlling interest	4,598,682	3,188,414
New issue proceeds payable on settlement	3,127,684	340,772
Loans payable (note 10)	6,719,628	4,392,000
	302,636,886	226,683,946
Shareholders' equity:		
Capital stock (note 11)	42,887,145	24,685,030
Contributed surplus (note 12)	3,794,472	3,876,501
Retained earnings	8,529,497	9,638,157
	55,211,114	38,199,688
Commitments (note 14)		
Contingencies (note 15)		
Subsequent event (note 19)		
	\$ 357,848,000	\$ 264,883,634

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director



Director



WELLINGTON WEST HOLDINGS INC.

Consolidated Statement of Earnings and Retained Earnings

Year ended June 30, 2007, with comparative figures for 2006

	2007	2006
		(Restated, note 2)
Revenue:		
Commissions, corporate finance and other	\$ 113,642,165	\$ 88,857,582
Investment income	6,754,215	5,630,470
Other	13,552,837	7,226,161
	133,949,217	101,714,213
Expenses:		
Administrative and general	22,203,350	17,250,119
Employee compensation and benefits	78,478,056	61,171,444
Subcontractor and management service fees	507,250	360,271
Occupancy	4,273,001	3,252,621
	105,461,657	82,034,455
Income before the undernoted	28,487,560	19,679,758
Other expense:		
Interest on loans payable	555,731	474,376
Amortization of capital and other assets	975,308	620,465
Amortization of intangible assets	154,000	–
Amortization of deferred recruitment costs	1,817,710	1,007,928
Expansion costs	1,858,951	1,561,995
Discretionary bonuses and compensation	6,461,153	5,819,209
	11,822,853	9,483,973
Earnings before income taxes and non-controlling interest	16,664,707	10,195,785
Income taxes:		
Current	5,886,050	4,092,832
Future	1,506,000	26,431
	7,392,050	4,119,263
Earnings before non-controlling interest	9,272,657	6,076,522
Non-controlling interest	(1,424,533)	(651,357)
Net earnings	7,848,124	5,425,165
Retained earnings, beginning of year:		
As previously reported	8,092,863	2,717,624
Change in accounting policy and correction of an error (note 2)	1,545,294	1,495,368
As restated	9,638,157	4,212,992
Dividends	(5,451,676)	–
Consideration paid in excess of paid-up-capital (note 11)	(3,505,108)	–
Retained earnings, end of year	\$ 8,529,497	\$ 9,638,157

See accompanying notes to consolidated financial statements.

WELLINGTON WEST HOLDINGS INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2007, with comparative figures for 2006

	2007	2006 (Restated, note 2)
Cash provided by (used in):		
Operating:		
Net earnings	\$ 7,848,124	\$ 5,425,165
Adjustments for:		
Amortization of capital and other assets	975,308	620,465
Amortization of intangible assets	154,000	–
Amortization of deferred recruitment costs	1,817,710	1,007,928
Stock-based compensation	1,709,984	1,169,961
Future income taxes	1,506,000	26,431
Non-controlling interest	1,424,533	651,357
Change in working capital items (note 16)	(11,206,051)	8,144,327
	4,229,608	17,045,634
Investing:		
Purchase of capital assets	(2,388,146)	(1,183,703)
Additions to deferred recruitment costs	(2,326,391)	(1,850,854)
Proceeds on disposal of capital assets	–	1,422,236
Increase in other assets, net of amortization	(152,134)	(129,197)
Cash paid to acquire interest in subsidiaries, net of cash acquired of \$780,068 (2006 – \$169,271)	(2,169,932)	(552,596)
Proceeds from repayment of shareholder loans	1,554,553	435,080
	(5,482,050)	(1,859,034)
Financing:		
Issuance of common shares, net of shareholder loans	5,711,148	527,290
Repurchase of common shares	(1,810,542)	(2,000,000)
Issuance of common shares of subsidiary, net	48,235	1,145,000
Decrease in loans payable, net	(2,372,372)	(661,000)
Dividends paid by subsidiary to non-controlling interest	(62,500)	(55,000)
	1,513,969	(1,043,710)
Increase in cash	261,527	14,142,890
Cash, beginning of year	28,492,481	14,349,591
Cash, end of year	\$ 28,754,008	\$ 28,492,481
Supplementary information:		
Interest paid	\$ 571,611	\$ 373,538
Interest received	6,754,215	5,542,119
Income taxes paid	5,197,532	3,078,761

Deferred recruitment costs incurred of \$4,438,488 (2006 – \$270,876) and related contributed surplus (note 12) have been excluded from investing and financing activities on the statement of cash flows. The increase of \$8,565,900 during 2007 (2006 – \$1,829,319) in shareholder loans and the related issuance of common shares has been excluded from investing and financing activities.

See accompanying notes to consolidated financial statements.

General:

Wellington West Holdings Inc. (formerly Wellington West Capital Inc.) (the company) is an independent financial services company incorporated under the laws of Manitoba. The company is privately held mainly through employee ownership. Through its various subsidiaries the company has operations in full-service brokerage, insurance and financial planning, asset management and capital markets segments of the financial services industry.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements include the accounts of all wholly-owned subsidiaries, Wellington West Capital Inc., Wellington West Financial Services Inc., Wellington West Total Wealth Management Inc., Wellington West Mortgage Services Inc., ClearSight Inc., the 50 per cent owned subsidiaries Wellington West Pro Ice Management Inc., Wellington West Capital Markets Inc., One Capital Management Inc. and the 60 per cent owned subsidiary Wellington West Asset Management Inc.

Wellington West Pro Ice Management Inc., Wellington West Capital Markets Inc. and One Capital Management Inc. are considered to be controlled subsidiaries for consolidation purposes. All significant inter-company balances and transactions have been eliminated.

(b) Securities owned:

Securities owned are valued at market, market being the quoted value of the securities on the last trading date in the year. Unrealized gains or losses are included in investment income.

(c) Revenue recognition:

Commission revenue consists of revenue generated from traditional commission-based brokerage services, recognized on a trade date basis.

Corporate finance revenue consists of advisory fees and underwriting fees earned on corporate finance activities, recognized when the underlying transaction is completed, the revenue is reasonably determinable and collection assured.

Other revenue includes financial planning fees, insurance commissions and wealth management services fees. Financial planning and wealth management services fees are recognized when the services are provided. Insurance commissions are recognized when the underlying insurance policy is accepted or renewed by the insurer.

Investment income consists of interest earned on investments, recognized on an accrual basis.

(d) Capital assets:

Capital assets are stated at cost. Equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization of computer hardware is provided using the declining balance basis at 30 per cent per annum. Computer software is written-off over one year from the date of acquisition. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Amortization of all other capital assets is provided using the declining balance basis at 20 per cent per annum.

Notes to Consolidated Financial Statements

(e) Deferred recruitment costs:

Deferred recruitment costs consist of fees for new client account transfers, transition fees and the prepayment of amounts for customer relationships managed by newly recruited investment advisors as follows:

- (i) Forgivable loans which are initially recorded at their principal amount, are in most instances interest-bearing and are forgiven on a straight-line basis over five years. The forgiven amount is included in amortization of deferred recruitment costs on the statement of earnings. If an employee is terminated or does not meet the terms of the agreement, the unamortized portion of the loan becomes payable on demand.
- (ii) Costs incurred related to fees for client account transfers, transition fees, commission fees to be paid to advisors in excess of market and other fees. These costs are amortized on a straight-line basis over five years.
- (iii) Cost of stock options of the company granted or capital stock of the company issued to an advisor at a value below the market value of common shares of the company on grant date. These costs are amortized on a straight-line basis over five years.

(f) Intangible assets:

Customer relationships and contract represent intangible assets acquired in business acquisitions that meet the specified criteria for recognition. These assets are recorded at fair value. The customer relationships asset is amortized on a straight-line basis over the estimated useful life of the asset, being twelve years. The contract intangible asset has an indefinite useful life. Accordingly, it is not amortized and is tested for impairment annually in accordance with the policy disclosed in note 1(g).

(g) Goodwill:

Goodwill is the excess of the purchase price over the fair value of the net assets acquired in business combinations.

Goodwill and other intangible assets with indefinite lives are subject to, at least annually, an impairment review to ensure that the fair value remains greater than, or equal to, the book value of these assets. Any excess of book value over fair value will be charged to income in the period in which the impairment is determined.

The company has reviewed goodwill and other intangible assets with indefinite lives, and has determined that no impairment charge was necessary.

(h) Translation of foreign currency transactions:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end rates of exchange and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses have been translated at the exchange rates in effect on the date of the transaction. Foreign exchange gains and losses are recorded in income in the year in which they occur.

(i) Income taxes:

The company uses the asset and liability method to account for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Notes to Consolidated Financial Statements

(j) New issue proceeds payable on settlement:

New issue proceeds payable on settlement are amounts payable to issuers of new securities on settlement and delivery of the underlying securities by issuers. Funds received from clients for new issue securities are held by National Bank Correspondent Network (NBCN) on the company's behalf and are reflected in the receivable from carrying broker balance. Once the issuers deliver the new issue securities to NBCN, NBCN in turn pays the issuers on the company's behalf.

(k) Stock-based compensation:

The company has a stock option plan for its directors and management. The company follows the fair value method to account for all stock-based compensation and other stock-based payments. The fair value is estimated at measurement date using the Black-Scholes option pricing model. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis over the vesting period. For awards that vest on a graded basis, compensation cost is recognized on a pro rata basis over the vesting period from the date of issuance. The company recognizes the effect of forfeitures on unvested options as they occur.

(l) Expansion costs:

Expansion costs include internal costs for expenses incurred to recruit new investment advisors to the company and to open new offices.

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF AN ERROR:

The company has changed its policy regarding recording of costs associated with recruiting new advisors. These costs, formerly expensed as incurred (included in expansion costs), are now being capitalized in accordance with the company's accounting policy as disclosed in note 1(e). This change has been applied retroactively and has increased amounts previously reported for deferred recruitment costs by \$2,582,752, future income tax liabilities by \$880,000 and retained earnings by \$1,702,752. In the current year, deferred recruitment costs of \$6,764,376 which would have formerly been expensed, were capitalized.

The company also made adjustments to the 2006 comparative figures due to the company not previously recording the cost associated with stock issued to new advisors. This change has been applied retroactively resulting in an increase to amounts previously reported for deferred recruitment costs by \$509,967 and contributed surplus by \$667,425 and a decrease to retained earnings by \$157,458.

3. FUNDS HELD IN TRUST:

Funds held in trust represents cash held by a third party trustee for clients in respect of self-administered registered retirement savings plans. The corresponding liability is included in the payable to clients.

4. CLIENT BALANCES:

Client security transactions are recorded on a trade date basis. Client security transactions are either on a cash or margin basis. In a margin transaction, the company extends credit to a client for the purchase of securities using the securities purchased and/or other securities in the client's account as collateral for the amounts loaned. Amounts loaned are limited by margin regulations of the Investment Dealers Association of Canada and other regulatory authorities and are subject to the company's credit review and daily monitoring procedures. Margin loans are due on demand and are fully secured. Interest is charged on margin loans based on a floating rate.

Notes to Consolidated Financial Statements

5. SECURITIES OWNED:

	2007	2006
Bonds:		
Province of Manitoba and Province of Saskatchewan bonds, interest from 3.3% to 4.6% (2006 - 3.0% to 5.5%), due from June 15, 2008 to June 15, 2012	\$ 1,347,597	\$ 1,696,557
Province of Manitoba Builder Bond, interest from 3.3% to 4.0%, due from June 15, 2008 to June 15, 2010	1,797,100	-
Province of Manitoba Hydro Bond, interest at 4.2%, due June 15, 2009	464,800	-
First National Alarm, interest at 9.0%, due April 13, 2011	25,481	25,481
Securex, due April 28, 2009	96,476	96,479
GICs:		
Interest at 4.0% (2006 - 3.8%), due from November 21, 2007 to February 15, 2008	3,935,146	1,857,855
Equities	5,749,130	11,747,768
Mutual Funds:		
AIC Money Market Fund	-	285,330
Dundee Investment Savings Account	396,614	-
	\$ 13,812,344	\$ 15,709,470

The company has pledged the Province of Manitoba Builder Bonds and Province of Manitoba Hydro Bond as security against promissory notes payable aggregating \$2,252,628 at June 30, 2007 as disclosed in note 10.

6. SHAREHOLDER LOANS:

	2007	2006
Promissory notes, no scheduled terms of repayment, interest at prime plus 1%, secured by shares of the company	\$ 13,649,102	\$ 6,645,849
Promissory note, no fixed terms of repayment, interest at prescribed rates, unsecured	26,588	18,494
	\$ 13,675,690	\$ 6,664,343

7. CAPITAL ASSETS:

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 1,264,282	\$ 372,041	\$ 892,241	\$ 740,239
Computer hardware and software	1,955,347	491,747	1,463,600	562,123
Leasehold improvements	1,908,424	574,172	1,334,252	778,713
	\$ 5,128,053	\$ 1,437,960	\$ 3,690,093	\$ 2,081,075

Notes to Consolidated Financial Statements

8. OTHER ASSETS:

	2007	2006
Deposit held by carrying brokers	\$ 352,640	\$ 350,000
Urban Property Group, 49.9%	–	249,850
Other	444,395	246,249
	\$ 797,035	\$ 846,099

9. INTANGIBLE ASSETS:

			2007	2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	\$ 2,042,000	\$ 154,000	\$ 1,888,000	\$ –
Contract with indefinite life	785,000	–	785,000	–
	\$ 2,827,000	\$ 154,000	\$ 2,673,000	\$ –

10. LOANS PAYABLE:

	2007	2006
Promissory notes payable – shareholders	\$ 2,975,000	\$ 2,500,000
Promissory notes payable – former shareholder	2,252,628	–
Subordinated loans	1,492,000	1,892,000
	\$ 6,719,628	\$ 4,392,000

The promissory notes payable to certain shareholders of the company are interest-bearing at 7 per cent (2006 – 7 per cent), payable on demand and are unsecured.

The promissory notes payable to a former shareholder of the company are secured by certain bonds as disclosed in note 5. The notes bear interest equal to the rates payable under the pledged bonds and \$252,628 of the notes mature on September 14, 2007 with the remaining \$2,000,000 due on December 31, 2008.

The subordinated loans are unsecured demand notes payable to the non-controlling interest holders of Wellington West Capital Markets Inc. The subordinated loans are interest-bearing at 12 per cent (2006 – 14 per cent). Repayment of the subordinated loans or conversion to capital stock is subject to the approval of the Investment Dealers Association of Canada.

Interest of \$555,731 (2006 – 474,376) was charged on the loans payable for the year ended June 30, 2007. At June 30, 2007, interest of \$74,120 (2006 – \$144,375) remains payable and is included in accounts payable and accrued liabilities.

Notes to Consolidated Financial Statements

11. CAPITAL STOCK:

	2007	2006
Authorized:		
Unlimited non-cumulative, voting preference shares, redeemable and retractable at \$1 per share, with a dividend entitlement of 0% to 10%		
Unlimited voting common shares		
Issued and outstanding:		
3,638,387 common shares (2006 – 3,344,000)	\$ 42,887,145	\$ 24,685,030

During the year, the company issued 598,250 (2006 – 167,200) common shares for total consideration of \$20,507,549 (2006 – \$4,082,900) consisting of cash of \$5,755,724 (2006 – \$1,181,520), promissory notes of \$8,565,900 (2006 – \$1,148,380), other consideration of nil (2006 – \$1,353,000) and transfer from contributed surplus of \$6,185,925 (2006 – \$400,000). During the year, the company repurchased 303,863 (2006 – 83,300) shares for consideration of \$5,810,542 (2006 – \$2,000,000) resulting in excess consideration paid over paid-up-capital of these shares of \$3,505,108 (2006 – nil). Under the terms of a repurchase agreement with one former shareholder, the former shareholder has certain price adjustment provisions through to December 31, 2008.

In accordance with the company's stock option plan and pursuant to the financing agreement for the employee share ownership plan, officers, directors, employees and shareholders have been granted the following stock options and warrants:

	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of year	454,082	\$ 27.62	376,700	\$ 21.26
Granted	287,585	32.06	328,828	32.32
Exercised	(434,027)	21.76	(167,200)	24.42
Expired/cancelled	(42,900)	30.69	(84,246)	22.75
Balance, end of year	264,740	\$ 43.46	454,082	\$ 27.62
Options exercisable, end of year	192,285		238,031	

Options outstanding at June 30, 2007 consist of the following:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Options Outstanding Weighted Average Exercise Price	Number Exercisable
\$ Nominal	8,333	1.0 years	\$ –	8,333
12-18	6,900	0.0 years	12.52	6,900
22-29	19,995	1.4 years	24.85	19,995
33-42	11,622	1.3 years	35.67	2,304
42-43	151,511	0.5 years	42.97	142,422
53-60	52,916	1.4 years	56.21	10,834
62-75	8,496	1.9 years	68.71	386
85-90	4,967	1.9 years	88.58	1,111
	264,740		\$ 43.46	192,285

Notes to Consolidated Financial Statements

The compensation expense related to stock options granted under the stock option plan during fiscal 2007 aggregated \$1,709,984 (2006 – \$620,482). The compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following assumptions used for grants in 2007: dividend yield of 0 per cent (2006 – 0 per cent), expected volatility of 0 per cent (2006 – 0 per cent), risk-free rate of 4.32 per cent (2006 – 2.71 per cent) and expected life between .25 years and 5 years (2006 – .25 years and 5 years).

12. CONTRIBUTED SURPLUS:

	2007	2006
		(Restated, note 2)
Balance, beginning of year	\$ 3,876,501	\$ 796,633
Stock-based compensation	1,709,984	620,482
Fair value of stock options issued in relation to deferred recruitment costs	4,438,488	270,786
Fair value of stock options issued in relation to a business combination	–	2,588,600
Stock options exercised	(6,230,501)	(400,000)
Balance, end of year	\$ 3,794,472	\$ 3,876,501

13. ACQUISITIONS AND PURCHASE PRICE ADJUSTMENTS:

Effective October 31, 2006, the company acquired all of the issued and outstanding common shares of Affinity Response Inc. and its subsidiary, Wellington West Capital Inc. acquired all of the issued and outstanding common shares of ClearSight Wealth Management Inc., for combined cash consideration of \$2,950,000. Subsequent to the acquisitions, ClearSight Wealth Management Inc. was amalgamated with Wellington West Capital Inc. and Affinity Response Inc. changed its legal name to ClearSight Inc. The purchase and sale agreement for Affinity Response Inc. provides for contingent consideration based on 0.2 per cent growth in assets under administration initially acquired from the effective date of acquisition to December 31, 2009. At June 30, 2007, the company has prepaid \$1,199,502 towards this contingent consideration. As the company has no recourse if the contingent consideration owing, based on the terms of the agreement, is less than the \$1,199,502, this amount has been included in the total consideration as disclosed above. Any additional amount owing by the company will be recorded as an intangible asset in the year determinable.

On November 30, 2005, the company acquired a 60.0 per cent interest in Barlow Capital Partners Inc., which was renamed Wellington West Asset Management Inc. As consideration for the acquisition, the company paid cash of \$660,000 and issued 9,100 common shares of Wellington West Capital Inc. at a fair value of \$300,300 for total consideration of \$960,300.

On May 26, 2006, the company acquired a 50.0 per cent interest in One Capital Management, LLC. As consideration for the acquisition, the company issued options to purchase 60,200 shares in Wellington West Capital Inc. at a price of \$43 per share for total consideration of \$2,588,600.

Notes to Consolidated Financial Statements

These transactions have been accounted for by the purchase method and the results of operations are included in the company's accounts from the date of acquisition. Details of the acquisitions are as follows:

	2007	2006
Net assets acquired, at fair value:		
Tangible assets	\$ 1,530,907	\$ 153,262
Future income taxes	957,000	–
Intangible assets	1,349,000	7,612
Goodwill	642,663	3,498,127
	4,479,570	3,659,001
Less total liabilities	1,529,570	110,101
Net assets acquired	\$ 2,950,000	\$ 3,548,900
	2007	2006
Consideration given:		
Cash	\$ 2,950,000	\$ 660,000
Options	–	2,588,600
Common shares	–	300,300
	\$ 2,950,000	\$ 3,548,900

In fiscal 2007, the company completed its purchase price allocation of the two business acquisitions that occurred in fiscal 2006 and as a result, reallocated \$1,478,000 of goodwill to customer relationships intangible asset (note 9). Future income tax liability of \$532,000 relating to the intangible asset was also allocated with an offsetting increase in goodwill.

14. COMMITMENTS:

The company is committed to payments under operating leases for office premises through 2017 in the aggregate amount of approximately \$18,156,300. Annual payments are approximately as follows:

2008	\$ 4,959,800
2009	4,328,800
2010	3,728,900
2011	2,876,400
2012	1,033,700
2013 and thereafter	1,228,700

Notes to Consolidated Financial Statements

15. CONTINGENCIES:

From time to time in connection with its operations, the company and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expenses in excess of amounts provided and the company does not believe that it will incur any significant additional loss or expense in connection with such actions. Should additional loss result from the resolution of these claims, this will be recorded in the period in which such loss can be reasonably estimated.

16. CHANGES IN WORKING CAPITAL ITEMS:

	2007	2006
Funds held in trust	\$ (32,943,028)	\$ (16,665,126)
Receivable from clients	(4,978,633)	(14,080,668)
Receivable from carrying broker	(36,262,643)	3,420,289
Securities owned	1,897,126	(6,284,176)
Other receivables	(3,003,638)	(1,555,674)
Prepaid expenses	(768,033)	(20,462)
Accounts payable and accrued liabilities	(6,281,363)	16,699,076
Bonuses payable	(4,351,906)	2,408,006
Payable to clients	72,010,637	44,452,072
Income taxes payable	688,518	1,017,578
New issue proceeds payable on settlement	2,786,912	(21,246,588)
	\$ (11,206,051)	\$ 8,144,327

17. RELATED PARTY TRANSACTIONS:

The company executes security transactions on behalf of its directors and shareholders. Commission revenue from these transactions is not material to the total commission revenue of the company and is earned in the normal course of business.

Included in receivable from clients is \$8,178,000 (2006 – \$6,849,000) and included in payable to clients is \$6,821,000 (2006 – \$5,080,000) which represents amounts receivable from and payable to shareholders which arose in the normal course of business.

The company received \$673,592 (2006 – \$347,746) in interest from shareholders on the shareholder loan balances.

During the year, management fees in the amount of \$119,057 (2006 – \$207,000) were received from affiliated companies. Subcontractor and management service fees were paid to 4445253 Manitoba Ltd., a related company, for services rendered in accordance with underlying agreements for \$207,231 (2006 – \$167,251).

The company has a 10 per cent carried interest in the property in which its Winnipeg office is located. By agreement, the company will receive its proportionate share of any proceeds over a threshold on the ultimate sale of the property. In addition, the company will proportionately share annually in the distributable income arising from the property but shall not be liable for any losses or liabilities of the property nor shall it be responsible for any capital contributions.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Notes to Consolidated Financial Statements

18. FINANCIAL INSTRUMENTS:

Fair value:

The fair value of financial assets and liabilities, except shareholder loans and loans payable, approximates their stated value due to their imminent maturity or short-term nature.

The fair value of the shareholder loans and loans payable is not determinable given the underlying terms and conditions.

Credit risk:

Credit risk arises primarily from the potential that counterparts to transactions fail to satisfy their obligations. Certain of the company's subsidiaries are involved in client security purchases entered into on a margin basis which effectively extends credit to clients. Collateral is provided in each client margin account by way of the securities purchased and/or other securities and cash balances. The extension of credit is limited by the company's credit policy and regulatory requirements. The company also extends loans to individuals to finance purchase of shares of the company with the loans secured by the underlying common shares. The large balance of the loans and the common security increases the risk associated with these loans.

Credit risk is managed by dealing with counterparties the company believes to be creditworthy and by actively monitoring credit and margin exposure and the financial health of the counterparties. As at June 30, 2007, the company's most significant counterparty concentration is with financial institutions and institutional clients.

19. SUBSEQUENT EVENT:

On August 20, 2007, the company announced its intention to acquire the remaining 50 per cent ownership interest in Wellington West Capital Markets Inc. In exchange for their 50 per cent ownership interest and execution of long-term agreements, the principals of Wellington West Capital Markets Inc. will receive total proceeds of \$46,648,350 payable through the issuance of 621,978 common shares of the company or through a combination of cash and shares where the cash consideration is not to exceed 50 per cent of the purchase price. The transaction is expected to be concluded in October 2007, subject to regulatory approval.

20. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.