








SMART EMPLOYEE BENEFITS INC

www.seb-inc.com

				Management Discussion and Analysis
				For the three and six months ended May 31, 2016 and 2015

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Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) of Smart Employee Benefits Inc. (the “Company” or “SEB”) covers the consolidated financial statements and events during and subsequent to the quarter ended May 31, 2016 up to the date of this report July 29, 2016. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and the accompanying notes for the quarters ended May 31, 2016 and May 31, 2015. All financial information is prepared in accordance with International Financial Reporting Standards (“IFRS”). All dollar amounts are in Canadian dollars unless otherwise indicated.

The Company is a reporting issuer in Ontario, Alberta and British Columbia, and is listed on the TSX-V under the symbol “SEB”. SEB documents and securities filings can be viewed on the SEDAR website (www.sedar.com) and additional information on the Company can be obtained via the Company’s website at www.SEB-inc.com.

Forward Looking Statements, Risks and Uncertainties

Certain statements in this MD&A may constitute “forward-looking” statements that involve known and unknown risks, uncertainties and other factors. The actual results, performance or achievements of SEB, or the industry may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These statements include, but are not limited to, comments made under the headings “Company Overview” and “Risks and Uncertainties” and other statements concerning the Company’s 2016 objectives, strategies to achieve those objectives, as well as management’s beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” or other similar terminology.

The risks and uncertainties include: the ability to achieve profitability and manage growth; reliance on and retention of competent staff; competition; performance obligations and client satisfaction; general state of the economy; possible acquisitions; possible future litigation; insurance limits; legislative and regulatory changes; revenue and cash flow volatility; operating risks; protection of intellectual property; valuation mandates; and restrictions on growth. Refer to the detailed discussion of risk factors included in this document. Given these risks and others described elsewhere in this document, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A, and, except in compliance with applicable law, SEB assumes no obligations to update or revise them to reflect new events or circumstances. Additionally, SEB undertakes no obligation to comment on analysis, expectations or statements made by third parties in respect of SEB, its financial or operating results, or its securities.

Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. These measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company’s results of operations from management’s perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company’s financial information reported under IFRS. Management uses non-IFRS measures such as EBITDA, and Adjusted

EBITDA (which are defined under the Definitions section of this report) to provide investors with a supplemental measure of the Company's operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare quarterly operating budgets, and to assess its ability to meet future debt service, capital expenditures, and working capital requirements.

Highlights

Financial Performance

In the three month period ended May 31, 2016, Revenue and Adjusted EBITDA from continuing operations increased 88.5% to \$25.1 million and 351.4% to \$ 1.1 million compared to \$13.3 million and \$0.2 million over the same period in the prior year. Due to stronger sales and reduced costs in the second quarter of fiscal 2016 compared to the first, the Company recorded increases of 7.6% in Revenue and an impressive 529.9% in Adjusted EBITDA.

Similarly, for the six month period ended May 31, 2016, Revenue and Adjusted EBITDA from continuing operations increased 97.0% to \$48.5 million and 78.4% to \$1.1 million compared to \$24.6 million and \$0.6 million over the same period in the prior year.

This period marked the thirteenth consecutive quarter for year-on-year growth in quarterly revenues for SEB with increases primarily from acquisitions. This was partially offset by the deconsolidation of one of the subsidiaries in the Benefits Division. Management expects continued organic growth from each of the segments going forward; however management also expects the timing and cycles of the contract procurement process, could result in some fluctuations of organic growth rate over time.

The Company continued its focus on operational and working capital initiatives which resulted in positive cash flow from operations for the quarter. The Company generated \$1.7 million and \$0.6 million in cash flow from operations for the three and six month periods ended May 31, 2016. In addition to positive operational results that confirm the strategic direction of the Company's business model, SEB continued to make tangible progress toward executing on many of its business priorities.

Strategic Acquisitions/Unwinding

The second quarter of 2016 saw the second full quarter of results for the Maplesoft acquisition, while the comparable quarter prior year contained the first full quarter of results from Paradigm. Both were key contributors to the year over year growth for the six month period ended May 31, 2016.

On July 26, 2016, the Company unwound its acquisition of Banyan Work Health Solutions Inc. and BITS Licensing Inc. (collectively "Banyan"). A full description of the transaction is discussed later in this report under the heading "Banyan Transaction and Selected Financial Information".

Operating Facilities and Debt Reduction

On July 8, 2016, the Company amended its revolving credit facilities adding up to \$3.5 million of additional capacity while reducing financing charges. The revolving facility will help support the Company's working capital requirements. It is anticipated that the amended facility will effectively meet the Company's operating needs. SEB has also reduced its term debt for the acquisition of Paradigm from \$4.2 million in the prior year to \$2.7 million

On July 26, 2016, the Company repaid \$0.9 million of convertible notes, and extended the maturity date of the \$3.0 million balance with amended notes. In addition, during July, 2016, the Company extended the maturity date of \$4.2 million of term notes. Repayment of \$1.3 million is due in the fourth quarter, while the balance has been extended to the first quarter of 2017. The amendments and extensions are part of the Company's debt stabilization strategy.

Organizational Restructuring

SEB continues to restructure the organization by leveraging synergies between the subsidiaries, reducing costs and investing in resources to facilitate further growth. Subsequent to the quarter end, Mr. Mohamad El Chayad was recruited in the role of President of SEB Administrative Services Inc. to lead the subsidiary's expansion efforts. Mr. El Chayad, a seasoned sales professional within the health sector, has a proven strength in technology and a solid global Benefits network.

Company Overview

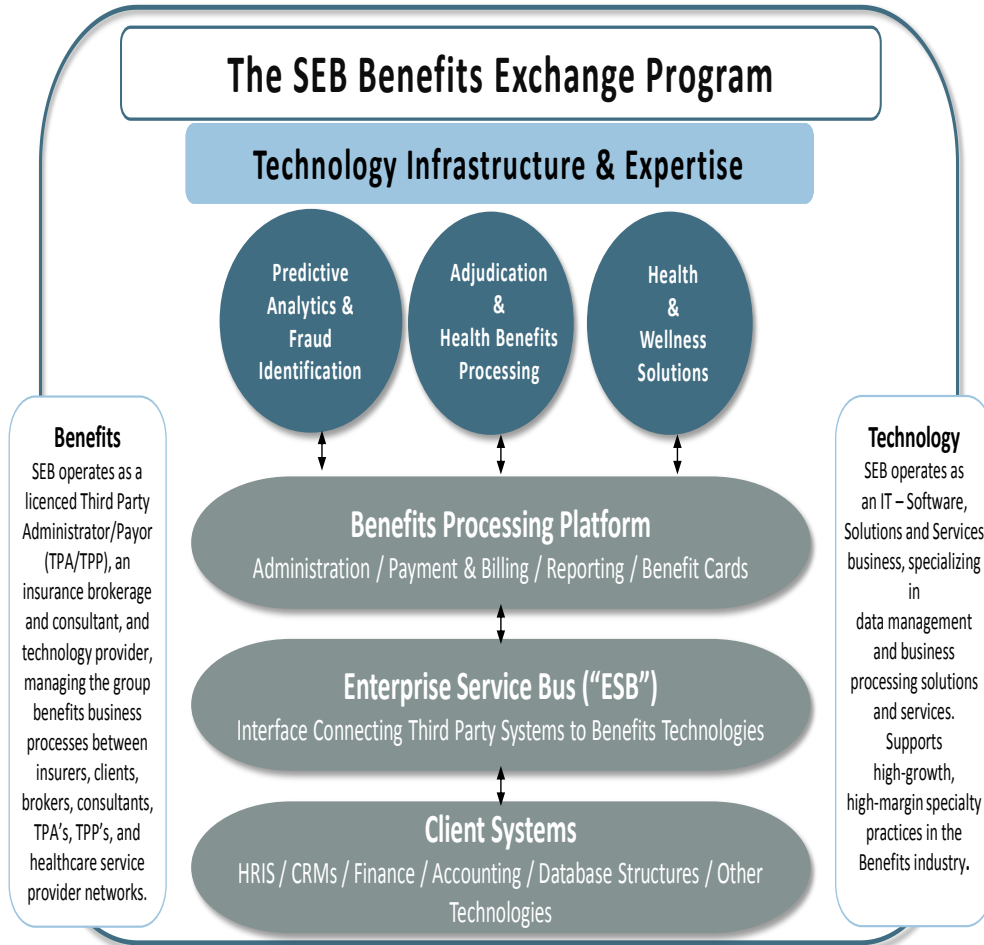
SEB is a technology company which builds, implements and manages fully-integrated data processing solutions. The Company offers game changing technology based solutions across multiple industry sectors including government, health care, financial services, resource/energy and industrial/commercial.

SEB's strategic vision is to become a major force in the processing and administration of health care benefits transactions for privately and publicly funded plans. The Canadian target market has two segments: Employee Group Benefits, in which annual spend is estimated by management to be \$35.0 billion, and Government Funded Benefits (federal and provincial), where \$25.0 billion is estimated to be spent annually.

The Company's global infrastructure is comprised of a corporate office and two operating divisions: Technology and Benefits. The Technology Division has a growing standalone business providing professional services, software solutions, systems integration, managed services, software development, application support, infrastructure services, and specialty data management expertise to corporate and government clients across Canada and internationally. It also extends its infrastructure, expertise and services to the Benefits Division which delivers Software as a Service ("SaaS") and Business Process Outsourcing ("BPO") solutions to both corporate and government funded health benefit environments. The Technology Division is a critical competitive advantage in supporting the implementation and operation of SEB's benefits processing solutions. The combination of the two operating divisions allows SEB to provide end-to-end total processing solutions, all managed in one technology environment.

SEB's core benefits technology solutions automate health benefits processing. They tie the administration and processing of all benefit types into one environment and integrate seamlessly with all legacy client systems to allow real-time, self-serve access of data. These modular solutions can operate as an integrated environment or on a standalone basis.

Technology Division Supports Growth Initiatives in High Margin Benefits Division



Milestones toward Strategic Vision

Since inception, SEB has enhanced its proprietary health benefit claims adjudication and administration software and acquired successful companies which support SEB's processing technology and/or provide sales channels through existing vendor relationships, project references and complementary health services. The following is a timeline of accomplished milestones:

- 2011—Purchased the most advanced health claims adjudication technology available, and began enhancing the adjudication component and developing the administration segment.
- 2012—Through a reverse takeover, became listed on the Toronto Venture Exchange.
- 2013—Acquired Logitek Technology Ltd. (“Logitek”), Somos Consulting Group Ltd. (“SOMOS”), and 50% of Inforica Inc. (“Inforica”), technology companies which provide the Benefits Division with both the necessary infrastructure, and sales channels.
- 2014—Acquired technology companies APS-Antian Professional Services Inc. (“Antian”) and Stroma Service Consulting Inc. (“Stroma”) and health/benefits companies Adeeva Nutritionals Canada Inc. (“Adeeva”), 50% of Banyan and 75% of Meschino Health and Wellness Corporation (“Meschino”).
- 2015—Acquired 50% of health consulting company SEB Benefits and HR Consulting Inc. (“SEBCON”); through Banyan, acquired 50% of SEB Analytics Inc.; sold the non-core Electronic Data Interchange (“EDI”) business of Logitek; acquired technology company Paradigm Consulting Group Inc. (“Paradigm”).
- 2016—Acquired Maplesoft Group Inc. (“Maplesoft”).

Today

SEB operates a mature Technology Division, with strong growing positive EBITDA performance and multiyear back-log. While it has used an acquisition driven model to expedite growth, the Technology Division has multiple annuity revenue streams driven by the long-term client relationships. It is a solid launching platform for continued organic growth.

The Technology Division also provides the IT infrastructure and support for the Benefits Division, in addition to the requisite security clearances, vendor of record arrangements and project references to successfully complete on corporate and government tenders.

Future Growth

SEB intends to acquire additional client relationships and vendor status to support a complementary organic growth environment with both employers and government. Targeted acquisitions are expected to bring synergistic opportunities for cross selling, in addition to references necessary for successful responses to requests for proposals.

- In the Benefits Division, acquisitions target third party administrators, as well as broker and consultant organizations that provide solutions and services to employers. The objective is to secure the client relationships and transition many of the front and back-office business processes to the SEB technology platform over time.
- In the Technology Division, SEB will consider companies which have established vendor relationships, security clearances and project references that are required to bid on government health contracts, in addition to technology providers with operations and/or products which are strategically supportive or complementary to Health Benefits processing/operations.

Acquisitions and investments in associate companies are made with the goal of obtaining positive cash flows which are expected to contribute to the operating results of the Company, partially based on restructurings and other initiatives management has executed. The Company continues to acquire companies which it believes will enhance the earnings capability of the Company. However, there are no assurances that management will be successful in achieving this goal.

Financial Discussion

Consolidated Statements of Loss for the three & six months ended May 31, 2016 and 2015

	Three months ended May 31			Six months ended May 31		
	2016	2015	Change	2016	2015	Change
Revenue	\$ 25,144,842	\$ 13,342,530	\$ 11,802,312	\$ 48,512,660	\$ 24,624,110	\$ 23,888,550
Cost of revenues	20,407,511	10,196,657	10,210,854	39,553,620	18,758,124	20,795,496
Gross Margin	4,737,331	3,145,873	1,591,458	8,959,040	5,865,986	3,093,054
	18.8%	23.6%	-4.8%	18.5%	23.8%	-5.3%
Operating costs	3,541,512	2,117,919	1,423,593	7,136,821	4,199,850	2,936,971
Professional fees	201,392	416,731	(215,339)	650,518	534,809	115,709
Share based compensation	108,972	373,603	(264,631)	137,477	531,440	(393,963)
Share of profit of equity-accounted investees, net of t	(187,069)	-	(187,069)	(36,272)	-	(36,272)
Adjusted EBITDA	1,072,524	237,620	834,904	1,070,496	599,887	470,609
Gain on sale of a portion of business	-	(100,000)	100,000	-	1,100,000	(1,100,000)
Acquisition and financing costs	295,967	830,127	534,160	613,694	830,127	216,433
EBITDA	776,557	(692,507)	1,469,064	456,802	869,760	(412,958)
Net (Loss)	\$ (1,061,278)	\$ (1,929,888)	\$ 868,610	\$ (3,487,993)	\$ (1,474,943)	(2,013,050)

Quarterly Comparative Consolidated Statements of Comprehensive Income (Loss)

	Mar 1, 2016 to May 31, 2016	Dec 1, 2015 to Feb 29, 2016	Sep 1, 2015 to Nov 30, 2015	June 1, 2015 to Aug 31, 2015	Mar 1, 2015 to May 31, 2015	Dec 1, 2014 to Feb 29, 2015	Sep 1, 2014 to Nov 30, 2014	June 1, 2014 to Aug 31, 2014
Revenue	\$ 25,144,842	\$ 23,367,818	\$ 13,844,199	\$ 11,878,990	\$ 13,342,530	\$ 11,281,580	\$ 4,260,462	\$ 5,749,929
Cost of revenues	20,407,511	19,146,109	10,245,072	8,710,481	10,196,657	8,561,467	3,297,053	4,587,944
Gross Margin	4,737,331	4,221,709	3,599,127	3,168,509	3,145,873	2,720,113	963,409	1,161,985
Operating costs	3,541,512	3,595,309	3,589,808	2,717,888	2,117,919	2,081,931	2,430,603	2,044,113
Professional fees	201,392	449,126	986,313	421,658	416,731	118,078	242,802	129,160
Share-based compensation	108,972	28,505	136,582	5,637	373,603	157,837	593,892	106,071
Change in fair value of contingent liability	-	-	46,381	-	-	-	-	-
Share of profit of equity-accounted investees, net of tax	(187,069)	150,797	-	-	-	-	(28,192)	-
Adjusted EBITDA	1,072,524	(2,028)	(1,159,957)	23,326	237,620	362,267	(2,275,696)	(1,117,359)
Gain on sale of a portion of the business	-	-	24,837	-	(100,000)	1,200,000	-	-
Acquisition and financing costs	295,967	317,727	180,000	-	830,127	-	-	-
Write-down of intangibles	-	-	551,516	-	-	-	-	-
EBITDA	776,557	(319,755)	(1,866,636)	23,326	(692,507)	1,562,267	(2,275,696)	(1,117,359)
Net Income (Loss)	(1,061,278)	(2,426,715)	(2,898,661)	(1,380,298)	(1,929,888)	454,945	(3,133,091)	(1,678,580)

Revenue

Since its inception in 2011, Smart Employee Benefits has pursued an acquisition based strategy which has led to dynamic growth. During Q2, 2016, the Company began to leverage synergies from its latest acquisition, Maplesoft Group Inc., which was acquired during the first quarter of 2016 (much as it did in the prior year's second quarter following the acquisition of Paradigm Consulting Group Inc.).

The Company's Revenue for the three month period ended May 31, 2016 increased by 88.5%, or \$11.8 million, to \$25.1 million from \$13.3 million for the same period in the prior year. This increase was primarily due to acquisition growth of \$13.7 million, driven primarily from the Maplesoft and Paradigm acquisitions. This was partially offset by a change in accounting for Banyan. Included in the comparative prior year figure was \$2.2 million attributable to Banyan.

The Company's Revenue for the six month period ended May 31, 2016 increased by 97.0%, or \$23.9 million, to \$48.5 million from \$24.6 million for the same period in the prior year. This increase was due to acquisition growth of \$28.2 million, driven primarily from the Maplesoft and Paradigm acquisitions. The above growth from acquisition was offset by a change in accounting for Banyan. Included in the comparative prior year figure was \$4.2 million attributable to Banyan.

Beginning fiscal 2016, Banyan's revenues are no longer consolidated, rather SEB reflected 50% of Banyan's results under the "Share of profit from equity-accounted investees" line on the Consolidated Statements of Comprehensive Loss. Subsequent to the quarter, the Company fully unwound the Banyan acquisition. Details of Banyan's financial performance, and subsequent transaction can be found under the heading "Banyan Transaction and Selected Financial Information" later in the report and Note 24 of the Condensed Interim Consolidated Financial Statements for the quarter ended May 31, 2016.

Gross margin

The Company's gross margin ("GM") for the three months ended May 31, 2016 increased by \$1.6 million over prior year to \$4.7 million. For the six months then ended, gross margin increased by \$3.1 million to \$9.0 million. The contribution from Maplesoft and Paradigm acquisitions were partially offset by a change in accounting for Banyan. Included in prior years gross margin for the three months ended May 31, 2015 was \$0.4 million attributable to Banyan (\$0.9 million for the six months then ended).

Gross margin % ("GM %") for Q2, 2016 was 18.8% (six months 18.5%) of revenues, a decrease of 4.8% (six month decrease of 5.3%) from the prior year. While still impressive, the margin decrease can be attributable to two factors: the exclusion of Banyan results (Banyan's GM % for the three months ended May 31, 2015 was 20%, and six months then ended 21%) and the growing professional services base which has a lower margin. For both the three and six months ended May 31, 2016, professional services comprised 90% of the revenue in the Technology Division as compared to 77% and 73% respectively.

Operating costs

Operating costs which are comprised of salaries, other compensation costs, and office and general expenses increased \$1.4 million in the three months ended May 31, 2016 (\$2.9 million in the six months then ended). Maplesoft contributed \$1.1 million (\$2.2 million over the six months) to this variance while the addition of resources in the corporate office partially attributed to the Division's increase of \$0.1 million over the comparable three month period prior year (\$0.3 million increase over the comparable six month period prior year). In addition, for the six months ended May 31, 2016, Paradigm recorded a full six months of activity, as compared to five in the comparable period in fiscal 2015.

Professional fees

Professional fees are comprised of accounting and legal expenses excluding those categorized as transaction costs. In the second quarter of fiscal 2016, SEB expensed \$0.2 million less than the second quarter in fiscal 2015. For the first six months of fiscal 2016, the professional fees are \$0.1 million higher than the comparable period prior year. The fluctuation of professional fees is associated with the volume and complexity of acquisitions at that time, as well as the added costs of audit and review to meet the requirements of both the TSX-V and the financing agreements.

Share based compensation

Options are a non-cash incentive used by the Company to retain key employees. When initially issued, the options are assigned a fair market value using a Black-Scholes calculation. The Company expenses these costs over the vesting periods of the options. Therefore the year to date and quarterly share based compensation cost does not rise and fall according to options issued during that period.

Share of profit of equity-accounted investee, net of tax

As further presented under the section “Banyan Transaction and Selected Financial Information” later in this MD&A, SEB currently reports its 50% of Banyan’s results on the “share of profit of equity accounted investee, net of tax line”. This amounted to \$0.2 million of income during the three months ended May 31, 2016 (\$0.04 million for the six months then ended). A portion of this income was previously recorded under the EBITDA line in the prior period. (i.e. interest, taxes, depreciation and amortization).

Gain on sale of a portion of business

The sale of Logitek’s EDI business added \$1.3 million to the EBITDA of the Company in prior year’s first quarter. There have been no further dispositions, although subsequent to this quarter the Banyan acquisition was unwound.

Acquisition and financing costs

Acquisition and financing costs are one-time expenses associated with acquisitions, integrations and financing activities. During Q2, 2016 the Company recorded \$0.3 million of expenses (\$0.6 million for the six months then ended) compared to \$0.8 million in Q2, 2015 (\$0.8 million for YTD Q2, 2015). Current fiscal expenses primarily relate to the Maplesoft acquisition and associated financing, while prior year’s expenses pertained to the Paradigm acquisition and associated financing.

Net loss

Loss from operations for the three month period ended May 31, 2016 was \$1.1 million as compared to a loss of \$1.9 million for the comparable period in the prior year. The quarter over quarter improvement of \$0.8 million resulted primarily from an increase in income of \$1.3 million from the Technology Division offset by negative variances of \$0.3 million and \$0.1million in the Corporation and Benefits Divisions respectively. Loss from operations for the six month period ended May 31, 2016 was \$3.5 million, or 7.1% of Revenue, compared to \$1.5 million, or 6.0% of Revenue, for the same period in the prior year. Adjusted EBITDA from continuing operations improved by 351.4% and 97.0% to \$1.1 million and \$1.1 million for the three and six month periods ended May 31, 2016 from \$0.2 million and \$0.6 million for the same periods in the prior year.

Quarterly Comparative Consolidated Statements of Financial Position

	May 31, 2016	Feb 29, 2016	Nov 30, 2015	Aug 31, 2015	May 31, 2015	Feb 28, 2015	Nov 30, 2014	Aug 31, 2014
Cash and cash equivalents	\$ 2,198,451	\$ 1,210,273	\$ 2,848,363	\$ 2,576,672	\$ 2,866,208	\$ 3,232,971	\$ 403,096	\$ 180,862
Accounts receivable	20,065,792	22,973,836	10,682,647	9,032,444	9,755,162	10,721,191	5,092,777	5,373,033
Short term notes receivable	310,671	-	-	-	-	-	-	-
Other current assets	1,137,867	1,067,544	638,683	774,994	991,662	2,320,155	560,735	824,306
Advances to acquisition target	-	-	1,125,671	-	-	-	-	-
Investments in associates	2,643,452	2,607,180	-	-	-	68,477	3,300,892	-
Long term deposits	140,146	194,148	194,148	275,352	275,352	275,352	275,352	158,474
Equipment	850,686	892,417	842,090	859,381	945,548	1,005,373	623,489	837,646
Software	1,947,528	1,951,212	2,567,835	2,703,725	3,479,092	3,096,784	1,990,169	2,731,939
Intangible assets	29,413,309	30,352,916	17,925,535	21,387,873	18,741,328	18,736,999	6,624,917	4,889,248
Total Assets	\$ 58,707,902	\$ 61,249,526	\$ 36,824,972	\$ 37,610,441	\$ 37,054,352	\$ 39,457,302	\$ 18,871,427	\$ 14,995,508
Bank loans	\$ 13,618,325	\$ 13,884,837	\$ 7,838,497	\$ 7,436,694	\$ 7,740,964	\$ 1,391,300	\$ 1,482,208	\$ 1,555,784
Accounts payable and accrued liabilities	13,313,518	14,975,662	7,503,538	5,366,678	5,722,692	6,098,616	4,504,779	2,893,603
Deferred revenue	411,587	642,597	572,564	454,127	443,885	553,654	721,520	933,237
Equipment leases and loans	11,562	16,874	22,187	27,499	35,913	53,423	76,883	163,567
Notes payable	11,769,096	11,230,028	1,650,729	2,113,229	2,075,729	9,270,211	7,099	677,769
Convertible debt	5,632,616	5,587,837	5,414,118	5,234,584	5,126,533	5,046,520	4,688,552	4,457,270
Contingent consideration payable	4,753,968	4,778,592	2,495,693	2,314,226	2,285,082	3,248,618	1,231,517	248,613
Deferred income taxes and current taxes payable	2,734,228	2,791,746	3,251,827	4,043,114	1,613,665	1,859,566	1,640,118	1,326,301
Preferred shares	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Total Liabilities	\$ 52,594,900	\$ 54,258,173	\$ 29,099,153	\$ 27,340,151	\$ 25,394,463	\$ 27,871,908	\$ 14,702,676	\$ 12,606,144
Share capital, warrants, options, associated costs and contributed surplus	31,890,845	31,707,918	28,560,188	26,489,578	26,348,879	26,102,593	20,354,699	15,315,073
Deficit	(25,075,126)	(24,011,714)	(21,608,641)	(18,612,240)	(17,047,908)	(15,097,522)	(15,499,981)	(12,653,725)
Total Shareholders' Equity	\$ 6,815,719	\$ 7,696,204	\$ 6,951,547	\$ 7,877,338	\$ 9,300,971	\$ 11,005,071	\$ 4,854,718	\$ 2,661,348
Non-controlling interest in subsidiaries	\$ (702,717)	\$ (704,851)	\$ 774,272	\$ 2,392,952	\$ 2,358,918	\$ 580,323	\$ (685,967)	\$ (271,984)
Total Liabilities and Shareholders' Equity	\$ 58,707,902	\$ 61,249,526	\$ 36,824,972	\$ 37,610,441	\$ 37,054,352	\$ 39,457,302	\$ 18,871,427	\$ 14,995,508

Cash and cash equivalents

The cash decreased by \$0.7 million over the prior year. A detailed discussion of cash flow can be found later in this report.

Accounts receivable

The accounts receivable balance at May 31, 2016 was \$20.1 million, an increase of \$10.3 million compared to May 31, 2015. The change is the result of the inclusion of Maplesoft's receivables of \$11.2 million, a growth in the accounts receivable balance of Inforica of \$1.0 million, offset by a decrease in the accounts receivable balance of Paradigm of \$0.6 million and the exclusion of Banyan which had an accounts receivable balance of \$0.7 million at May 31, 2015.

Due to the nature of SEB's typical client (i.e. government or large corporation), less than 2% of the balance is over 90 days. A provision for uncollectible accounts has been put in place for any amounts in dispute or where collectability is questionable.

Short term notes receivable

The short term note receivable balance at May 31, 2016 of \$0.3 million represents advances to former Maplesoft shareholders as part of the overall \$2.0 million commitment provided in the purchase agreement as described in Note 4(e) of the unaudited condensed interim consolidated financial statements.

Other current assets

Other current assets are comprised of inventory and prepaid deposits. The increase of \$0.1 million is the result of an increase in inventory of \$0.3 million related to Adeeva's products offset by a decrease in prepaid deposits of \$0.1 million.

Investments in associates

Investment in associates reflects the amount invested in non-consolidated enterprises. The increase of \$2.6 million from second quarter prior year primarily reflects the deconsolidation of the Banyan entity. Full details of Banyan's financial performance can be found later in this report in the section entitled "Banyan Transaction and Selected Financial Information".

Long term deposits

The long term deposit account contains the deposit for the corporate premises in Mississauga ON which the Company relocated to in Q3, 2014. In accordance with the tenancy agreement, a portion of the rent payable in Q4, 2015, Q1 and Q2 2016 was deducted from the deposit, hence the reduction of \$0.1 million from the previous year's second quarter.

Equipment

Equipment is comprised of the depreciated value of furniture, computer hardware and computer hardware under capital lease. The Q2, 2016 balance decreased by \$0.1 million from Q2, 2015 as a result of the depreciation expense of all the entities offset by equipment added through the Maplesoft acquisition.

Intangible assets

Prior to May 31, 2016 the Company acquired control of nine companies (Logitek, SOMOS, Inforica, Antian, Adeeva, Stroma, Paradigm, SEBCON and Maplesoft). The difference between the purchase price of these companies and the tangible assets has been attributed to intangible assets such as software, intellectual property, customer relationships, trade names and goodwill. A valuator is contracted subsequent to material acquisition transactions to allocate the value of intangible assets and to annually test for impairment in the value.

The valuation work for Maplesoft is currently in progress, however, management has used preliminary information to establish intangible values. At May 31, 2016, the Statement of Financial Position has \$4.5 million of customer relationships, \$2.7 million of tradenames, and \$8.3 million of goodwill pertaining to the Maplesoft acquisition.

Bank loan

At May 31, 2016, the consolidated bank debt was \$13.6 million, which is an increase of \$5.9 million over Q2, 2015. The increase was primarily attributable to debt assumption in the Maplesoft. Maplesoft bank debt at Q2, 2016 is \$6.8 million.

During 2015, the Company obtained new credit facilities on behalf of Paradigm Consulting Group and replaced the existing credit arrangement of SOMOS, Logitek and Stroma. The Company calculated that it was in default with regard to the debt to equity covenant of the Paradigm facility. Subsequent to the quarter end, the Company received a Waiver of Default on the Paradigm Facility.

On July 8, 2016, the Company leveraged the assets of SOMOS, Logitek and Antian to amend Maplesoft credit facilities. The new operating line is up to \$12.5 million, and calculated on billed and unbilled receivables.

Accounts payable and accrued liabilities

Accounts payable, taxes and accrued liabilities increased in comparison to Q2 of prior year by \$7.6 million of which \$6.7 million is due to the consolidation of Maplesoft.

Deferred revenue

Deferred revenue is the amount of licensing fees and consulting service revenue paid in advance of services being rendered. Deferred revenue decreased by \$32 thousand over the prior year.

Notes Payable

Notes payable increased by \$9.7 million from May 31, 2015. At May 31, 2016 notes payable primarily related to the assumption of Maplesoft debt and associated financing (details are available under Liquidity Risk).

Currently, the Company is engaged in raising financing with the intent of using the funds to retire debt assumed as a result of the acquisition of Maplesoft in December, 2015 (see Notes 4 and 14 of the unaudited condensed interim consolidated financial statements), and provide both working capital and an acquisition facility for future expansion.

Equipment leases and loans

Both equipment leases and loans have decreased over prior year by a total of \$24 thousand representing payments on existing leases/loans. No new equipment leases or loans were entered into.

Convertible debt

The net increase in convertible debt over the last 12 months of \$0.5 million reflects interest accretion. Interest accretion, a non-cash expense, for Q2, 2016 was \$71 thousand (\$0.2 million in Q2, 2015).

Contingent consideration payable

Contingent consideration payable are discounted liabilities to vendors of acquired companies related to future performance. SEB has recorded contingent consideration liabilities for Adeeva, Inforica, Paradigm, Banyan and Maplesoft. Total contingent liabilities increased from May 31, 2015 by \$2.5

million. Maplesoft acquisition costs included \$2.3 million of contingent payments, which was offset by a change in discount factor in the existing liabilities calculated during Q4, 2015.

Subsequent to the quarter, the Banyan transaction was unwound. This will result in recording a reversal of \$0.2 million thousand in the third quarter of 2016 of the Banyan contingent liability.

Deferred income taxes

Deferred income taxes arises from the timing difference of intangibles amortized for accounting purposes versus for tax. This non-cash long term liability was adjusted in fiscal 2015 to reflect the final valuations of both Paradigm and Banyan and the sale of Logitek's EDI business. The impact on deferred tax resulting of the Maplesoft acquisition is currently being assessed and will be finalized before year end.

Consolidated Statements of Cash flows for the three & six months ended May 31, 2016 and 2015

	Three months ended May 31			Six months ended May 31		
	2016	2015	Change	2016	2015	Change
Cash flows from operating activities	\$ 1,653,797	\$ 579,660	\$ 1,074,137	\$ 581,850	\$ (1,445,777)	\$ 2,027,627
Cash flows from investing activities	(377,748)	(9,240,425)	8,862,677	(1,897,214)	(5,556,426)	3,659,212
Cash flows from financing activities	(287,871)	8,294,002	(8,581,873)	665,452	9,465,315	(8,799,863)
Net change in cash for the period	\$ 988,178	\$ (366,763)	\$ 1,354,941	\$ (649,912)	\$ 2,463,112	\$ (3,113,024)

Quarterly Comparative Cash flow

	Quarters							
	Mar 1, 2016 to May 31, 2016	Dec 1, 2015 to Feb 28, 2016	Sep 1, 2015 to Nov 30, 2015	Jun 1, 2015 to Aug 31, 2015	Mar 1, 2015 to May 31, 2015	Dec 1, 2014 to Feb 28, 2015	Sep 1, 2014 to Nov 30, 2014	Jun 1, 2014 to Aug 31, 2014
Net income (loss):	\$ (1,061,278)	\$ (2,426,715)	\$ (2,898,660)	\$ (1,380,299)	\$ (1,929,888)	\$ 454,945	\$ (3,127,558)	\$ (1,685,673)
Add items not involving cash:								
Income tax recovery	-	-	(58,020)	-	-	-	(257,930)	-
Amortization of intangible assets	1,025,738	1,004,404	658,849	716,647	724,772	683,330	391,672	249,287
Depreciation	46,714	103,512	53,270	103,731	65,714	35,008	150,807	24,188
Accretion of interest	55,041	205,289	178,958	191,118	187,892	194,512	441,873	138,722
Accrued interest	-	-	143,630	-	-	-	-	-
Write-down of intangibles	-	-	551,516	-	-	-	-	-
Gain on sale of business	-	-	75,163	-	-	(1,200,000)	-	-
Share-based compensation	108,972	28,505	136,582	5,637	373,603	157,837	593,892	106,071
Change in contingent liability	-	-	92,626	-	-	-	-	-
Equity income from associate investments	-	-	-	-	-	-	(28,192)	-
Share of profit of equity-accounted investees, net of tax	(187,069)	150,797	-	-	-	-	-	-
Non-cash working capital	1,665,679	(137,739)	797,279	545,597	327,440	(2,351,069)	1,239,912	(725,191)
Cash flows from (used in) operating activities	1,653,797	(1,071,947)	(268,807)	182,431	(250,467)	(2,025,437)	(595,524)	(1,892,596)
Cash flows from investing activities								
Proceeds from sale of business	-	75,000	-	100,000	-	1,750,000	-	-
Advances to acquisition target	-	-	(1,125,671)	-	-	-	-	-
Purchase of software and equipment	(54,731)	(195,547)	(240,326)	(200,391)	(430,014)	(68,782)	(141,702)	-
Acquisition of Antian	-	-	-	-	-	-	(357,701)	-
Acquisition of Stroma	-	-	-	-	-	-	(650,000)	-
Acquisition of Banyan	-	-	-	-	-	-	(1,575,000)	-
Acquisition of Paradigm	-	-	-	-	(7,974,270)	-	-	-
Net cash on acquisition of Inforica	-	-	-	-	-	-	(16,864)	-
Net cash on acquisition of Antian	-	-	-	-	-	-	357,701	-
Net cash on acquisition of Stroma	-	-	-	-	-	-	302,453	(650,000)
Net cash on deconsolidation Banyan	-	(971,192)	-	-	-	848,559	-	-
Net cash on acquisition of Paradigm	-	-	-	-	-	1,159,848	-	-
Purchase of equipment	-	-	(32,441)	-	(6,014)	(5,626)	58,686	(137,283)
Increase of notes receivable with related parties	(75,000)	(110,000)	-	-	-	-	-	-
Acquisition and financing costs	(248,017)	(317,727)	-	-	-	-	-	-
Dividend paid by Banyan	-	-	(200,000)	(150,000)	-	-	-	-
Cash flows from (used in) investing activities	(377,748)	(1,519,466)	(1,598,438)	(250,391)	(8,410,298)	3,683,999	(2,022,427)	(787,283)
Cash flows from financing activities								
Proceeds from equity financings	-	1,557,430	2,400,000	-	-	-	3,000,000	-
Issue costs on equity financings	-	-	(120,000)	-	-	-	(55,858)	-
Proceeds from exercised warrants	-	-	-	-	-	1,262,725	150	59,750
Proceeds from exercised options	-	-	67,999	135,063	1,313	56,000	26,375	9,100
Convertible debt to be issued	-	-	-	-	-	-	-	-
Advances from shareholders	-	-	-	-	-	-	163,923	-
Repayments from bank loan	(350,000)	-	(262,500)	(262,500)	(262,500)	-	-	-
Proceeds (Repayment) of operating line	83,488	(408,009)	664,303	(41,770)	2,412,164	(90,908)	493,137	330,044
Repayment of equipment leases	(2,187)	(2,188)	(2,187)	(5,289)	(13,542)	(16,678)	(81,310)	44,377
Repayment of equipment loans	(3,125)	(3,125)	(3,125)	(3,125)	(3,968)	(6,782)	(5,375)	(5,375)
Proceeds/repayment of short term notes	-	-	(606,130)	37,500	2,068,630	-	(653,153)	672,699
Proceeds from bank term loan	-	(175,000)	-	-	4,200,000	-	-	-
Conversion of notes	-	-	-	-	-	-	235,580	12,611
Issue costs on convertible debt	-	-	-	-	-	-	(248,192)	-
Repayment of convertible debt	(16,047)	(15,785)	576	(81,455)	(108,095)	(33,044)	(35,092)	-
Cash provided by flows from (used in) financing activities	(287,871)	953,323	2,138,936	(221,576)	8,294,002	1,171,313	2,840,185	1,123,206
Net change in cash for the period	988,178	(1,638,090)	271,691	(289,536)	(366,763)	2,829,875	222,234	(1,556,673)
Cash, beginning of period	1,210,273	2,848,363	2,576,672	2,866,208	3,232,971	403,096	180,862	1,737,535
Cash, end of period	\$ 2,198,451	\$ 1,210,273	\$ 2,848,363	\$ 2,576,672	\$ 2,866,208	\$ 3,232,971	\$ 403,096	\$ 180,862

Cash flows from operating activities

Cash provided from operating activities for the quarter was \$1.7 million compared to \$0.6 million in the prior year's second quarter. The largest variance between years was due to the consolidation of Maplesoft.

Up until this year, the Company has been in the process of developing/acquiring sustainable revenue for generation of cash flow. During this period, it has relied on raising the necessary cash through issues of equity capital, debt which is convertible to equity capital and debt, to fund acquisitions, operations and software development. The Company is targeting operations to be self-sustaining and cash positive.

Cash flows from investing activity

Cash used in Q2, 2016 for investing activity was \$0.4 million compared to cash used of \$9.2 million in Q2, 2015. The variance primarily is due to \$8.0 million being used for the Paradigm acquisition in Q2, 2015.

Cash flows from financing activity

SEB's two primary financing sources are equity and debt financing. Equity financing involves stock issuance, option exercise and warrant exercise. Debt financing includes convertible debt, bank financing (revolving and term), short-term notes, and equipment loans and leases. Cash used in Q2, 2016 for financing activity was \$0.3 million compared to cash received of \$8.3 million in Q2, 2015.

The three primary sources of the variance of Q2/Q2 were due to \$4.2 million proceeds from a term loan, proceeds of a \$2.1 million revolving loan and \$2.0 million short-term notes issuance, which were used to finance the Paradigm acquisition and expansion of business in Q2, 2015.

Equity financing

During Q4, 2015, a strategic investor subscribed to SEB stock in the amount of \$2.4 million. This was the first tranche of a \$4.0 million private placement, the second of which was completed on December 7, 2015. The Second Tranche financing consists of 4 million units (the "Units") at a price of \$0.40 per Unit. Each Unit consisted of (i) one common share of SEB and (ii) one common share purchase warrant of SEB (the "Warrants"). Each Warrant has a term of 24 months from the date of issuance and vests on December 31, 2016 at an exercise price of \$0.75 per share. All securities issued in connection with the financing were subject to a four month hold period from the date of closing.

While the financing was non-brokered, pursuant to SEB's previous engagement of finders, a cash fee of 4.49% of the gross proceeds raised in the private placement was incurred and finder warrants (the "Finder Warrants") equal to 8.975% of the number of Units of SEB (897,500 warrants) were issued. Each Finder Warrant is exercisable for a period of 18 months from the closing date at an exercise price of \$0.40 per share.

No warrants were exercised during Q2, 2016 or Q2, 2015. During Q2, 2016 the Company cancelled the deferred share units (DSUs) of \$12,500 reported in Q1, 2016. In Q2, 2016 there was no exercise of stock options (\$1,313 in Q2, 2015).

Convertible Debt

No new convertible debt was issued in either Q2, 2016 or Q2, 2015. In Q2, 2016 \$10,000 of convertible debt was converted to stock (\$nil in Q2, 2015). In Q2, 2016 \$16,047 (\$108,095 in Q2, 2015) of repayments of convertible debt were made.

Subsequent to the quarter, on July 26, 2016 the Company, through an Amendment and Extension Agreement, amended the terms of the convertible notes due August 12, 2016 (the “August Notes”), such that the maturity date is extended to December 31, 2016 and the interest rate for the period August 12, 2016 to December 31, 2016 is amended from 10% to 12%. As well, \$608,333 of the August Notes has been repaid and the noteholders agreed to waive security against the shares of Banyan Work Health Solutions Inc. and BITS Licensing Inc. In addition, the conversion price was amended to \$0.30 per share from August 12, 2016 to December 31, 2016.

In addition, on July 26, 2016 the Company, through an Amendment and Extension Agreement, amended the terms of the convertible notes due May 13, 2016 (the “May Notes”). The May Notes had been issued in tranches of \$1,025,000, \$725,000 and \$250,000. The noteholders agreed to waive security against the shares of Banyan Work Health Solutions Inc. and BITS Licensing Inc. The maturity date is extended to December 31, 2016. For the period from July 26, 2016 to December 31, 2016, the interest rate was amended to 12% and the conversion price was amended to \$0.30 per share. As well, \$310,000 of the May Notes has been repaid.

Bank debt

On March 10, 2015 the Company closed credit facilities with a major Canadian Schedule I Bank in the amount of up to \$8,775,000. The credit facilities were obtained by Paradigm and SOMOS.

The \$8,775,000 consists of:

- i. A \$4,200,000 term loan acquisition facility which was used in connection with the Corporation’s acquisition of Paradigm. The acquisition facility bears interest at the Canadian Dollar Prime Rate to Prime Rate plus 1.75%, depending on the amount advanced under the facility, has a term of 3 years and may be repaid at any time without penalty. The balance at May 31, 2016 was \$2,887,500.
- ii. Paradigm also obtained a \$3,000,000 operating demand facility, bearing interest at the Prime Rate plus 0.75% to 1.75%, depending on Paradigm’s debt to EBITDA ratio, along with a \$50,000 corporate credit card.
- iii. SOMOS obtained a \$1,500,000 operating demand facility bearing interest at the Prime Rate plus 1.875% and a \$25,000 corporate credit card. Concurrent with the new SOMOS facility, the Stroma facility was terminated.

Both Paradigm’s credit facilities and the SOMOS facility were secured by a first charge over all of the assets of certain subsidiaries of the Corporation, contain positive, negative and financial covenants, and include other usual and customary terms and conditions. The Company, Paradigm, SOMOS and certain other subsidiaries have provided guarantees pursuant to the credit facilities. Fees and warrants associated with the debt coordination were payable to an outside party.

During Q2, 2016, \$0.4 million (\$0.3 million in Q2, 2015) of the term loan was repaid. During Q2, 2016 \$0.1 million (\$2.4 million in Q2, 2015) of proceeds were drawn on the operating line.

At November 30, 2015, the Company calculated that it was in default with regards to the fixed charge coverage ratio and total funded debt covenants of the Paradigm facility. This was due to non-recurring cash payments related to the acquisition, integration and financing for which the Company had not received formal approval from the bank to exclude in its covenant calculations. Subsequent to the quarter end, the Company received a waiver of default.

Subsequent to the quarter end, the Company consolidated the SOMOS bank loan with Maplesoft’s current financing, and repaid the bank operating line. The consolidation resulted in up to a \$3,500,000 increase in available credit at reduced financing costs. The financing transaction is detailed below:

On July 8, 2016, SEB closed a credit facility with a major international asset based lender in the amount of up to \$12.5 million (the "Credit Facility"). The borrowers under the Credit Facility are Maplesoft Group Inc., Somos Consulting Group Ltd, APS – Antian Professional Services Inc. and Logitek Technology Ltd. The Credit Facility is an amendment to the existing operating credit facility of up to \$7.5 million previously in place between the same lender and Maplesoft Group Inc.

The Credit Facility also replaces an operating credit facility of up to \$1.5 million which Somos Consulting Group Ltd, APS - Antian Professional Services Inc. and Logitek Technology Ltd. had in place with a major Canadian Schedule I Chartered Bank.

The Credit Facility has a two-year term and bears interest at the greater of 0.5% or the one-month U.S. Dollar London Interbank Offered Rate, plus 6.5% per annum. The amount available under the Credit Facility is a revolving loan based on a formula calculated on the billed and un-billed accounts receivable of the borrowers. The Credit Facility is secured by a first charge over all of the assets of certain subsidiaries of the Company, contains positive, negative and financial covenants, and includes other usual and customary terms and conditions. SEB provides a guarantee under the Credit Facility.

Equipment loans and leases

The Company repaid \$5 thousand of its equipment loans and leases in Q2, 2016 compared to a \$18 thousand in the previous year second quarter. No new equipment leases or loans have been entered into.

Promissory Notes

Of the short term debt assumed by the Company as part of the consideration in the acquisition of Maplesoft Group Inc. on December 3, 2015, agreements have been reached whereby \$7.0 million of the debt has been extended to maturity dates ranging from October 31, 2016 to March 5, 2018.

Operations Discussion

The Company is made up of three distinct divisions: Benefits, Technology and Corporate. The Benefits Division offers a suite of products to clients ranging from claims processing to benefits consulting. The Technology Division encompasses professional services, system development, hosting and infrastructure support and the Corporate Division manages the overall strategic direction of the subsidiaries, executes acquisitions, negotiates financings and is accountable to the Board and Shareholders.

Segmented Highlights for the three and six months ended May 31, 2016 and 2015

	Three months ended May 31, 2016				Three months ended May 31, 2015			
	Benefits	Technology	Corporate	Total	Benefits	Technology	Corporate	Total
Revenues	\$ 376,762	\$ 24,768,080	\$ -	\$ 25,144,842	\$ 2,595,225	\$ 10,747,305	\$ -	\$ 13,342,530
Cost of revenues	179,847	20,227,664	-	20,407,511	2,008,420	8,188,237	-	10,196,657
Gross Margin	196,915	4,540,416	-	4,737,331	586,805	2,559,068	-	3,145,873
Gross Margin %	52%	18%	N/A	19%	23%	24%	N/A	24%
Operating costs	597,144	2,504,509	439,859	3,541,512	444,381	1,302,500	371,038	2,117,919
Professional fees	14,046	92,359	94,987	201,392	159,083	159,895	97,752	416,731
Share-based compensation	-	-	108,972	108,972	-	-	373,603	373,603
Share of profit of equity-accounted investees, net of tax	(187,069)	-	-	(187,069)	-	-	-	-
Adjusted EBITDA	(227,206)	1,943,548	(643,818)	1,072,524	(16,659)	1,096,672	(842,393)	237,620
Gain on sale of a portion of the business	-	-	-	-	-	(100,000)	-	(100,000)
Acquisition and financing costs	-	248,017	47,950	295,967	-	830,127	-	830,127
EBITDA	(227,206)	1,695,531	(691,768)	776,557	(16,659)	166,545	(842,393)	(692,507)
Interest	3,473	562,707	127,237	693,417	6,606	117,479	206,373	330,458
Accretion of interest	(34,191)	-	105,017	70,826	-	-	187,892	187,892
Income tax (recovery)	-	1,140	-	1,140	-	(71,485)	-	(71,485)
Depreciation	17,507	29,207	-	46,714	23,402	42,312	-	65,714
Amortization	16,109	375,721	633,908	1,025,738	68,451	603,990	52,361	724,802
Net Income (Loss)	\$ (230,104)	\$ 726,756	\$ (1,557,930)	\$ (1,061,278)	\$ (115,118)	\$ (625,750)	\$ (1,289,019)	\$ (1,929,888)

	Six months ended May 31, 2016				Six months ended May 31, 2015			
	Benefits	Technology	Corporate	Total	Benefits	Technology	Corporate	Total
Revenues	\$ 735,077	\$ 47,777,584	\$ -	\$ 48,512,660	\$ 5,000,438	\$ 19,623,673	\$ -	\$ 24,624,110
Cost of revenues	352,400	39,201,220	-	39,553,620	3,705,030	15,053,094	-	18,758,124
Gross Margin	382,677	8,576,363	-	8,959,040	1,295,408	4,570,578	-	5,865,986
Gross Margin %					26%	23%	N/A	24%
Operating costs	1,187,843	4,897,626	1,051,352	7,136,821	1,048,283	2,522,644	628,923	4,199,850
Professional fees	20,745	228,946	400,828	650,518	197,900	218,154	118,755	534,809
Share-based compensation	-	-	137,477	137,477	-	-	531,440	531,440
Share of profit of equity-accounted investees, net of tax	(36,272)	-	-	(36,272)	-	-	-	-
Adjusted EBITDA	(789,639)	3,449,792	(1,589,657)	1,070,496	49,226	1,829,780	(1,279,118)	599,888
Gain on sale of a portion of the business	-	-	-	-	-	1,350,000	-	1,350,000
Acquisition and financing costs	-	248,017	365,677	613,694	-	830,127	-	830,127
EBITDA	(789,639)	3,201,775	(1,955,334)	456,802	49,226	999,652	(1,279,118)	(230,240)
Interest	6,169	1,140,557	356,232	1,502,957	20,292	140,254	295,036	455,582
Accretion of interest	-	-	260,330	260,330	-	-	382,404	382,404
Income tax (recovery)	-	1,140	-	1,140	69,378	178,515	-	247,893
Depreciation	33,616	116,610	-	150,226	24,402	76,320	-	100,722
Amortization	16,109	751,717	1,262,316	2,030,142	137,912	603,990	666,200	1,408,102
Net Income (Loss)	\$ (845,533)	\$ 1,191,752	\$ (3,834,211)	\$ (3,487,993)	\$ (202,759)	\$ 1,350,574	\$ (2,622,758)	\$ (1,474,943)

Benefits Division

The Benefit Division has combined the services of multiple standalone companies to develop SEB's Benefits Exchange Platform. SEB's solutions and expertise fall into five categories:

1. Adjudication and Health Benefits Processing – SEB has developed a SaaS/BPO based platform for processing employer and government funded health benefit claims that provides an integrated, end-to-end solution, capable of processing the administration, payments, billing and adjudication of health benefits claims. The platform automates the administration and processing of all benefit types into one environment and provides real-time reporting at the employee/detailed benefit level. This unique object-oriented rules base platform allows trained administrators, not programmers, to create and implement new rules in minutes, and enhance automation.

2. Health and Wellness Solutions – SEB hosts a content-rich, fully automated delivery environment, providing fact-based, actionable health and wellness data for employees, plan members, plan sponsors and insurers, which educates and provides an automated framework to implement and sustain health improvement strategies.
3. Predictive Analytics and Fraud Identification– Analysis of historical big data using algorithms facilitate the creation of fraud identification rules which are incorporated in real-time adjudication environments and may assist in pricing.
4. Enterprise Service Bus – Business Process Data Management Module for tying legacy data systems to new technology solutions, automating access to historic data.
5. Technology Infrastructure and Expertise – Extensive data management expertise including data centers, PCI certified security, systems integration, business intelligence, software development, CRM, BizTalk, PeopleSoft, BPO, ITIL, Professional Services, Hosting, Project Management, etc. This infrastructure and expertise make everything work as an integrated solution.

At quarter end, the Benefits Division included the following active companies:

- SES Benefits Canada Corporation
- SEB Administration Services Inc.
- Adeeva Nutritionals Canada Inc.
- Meschino Health and Wellness Corporation
- SEB Benefits and HR Consulting Inc.
- BIG Benefits and HR Services Inc.
- The Banyan Group of Companies

During the second quarter, the Benefits Division recorded a negative EBITDA of \$0.2 million; excluding the share of profits from Banyan, the Benefits Division would have recorded a negative EBITDA of \$0.4 million of which the majority represents the on-going development costs of both the Adjudication/Administrative Claims Processing Platform, and the Meschino Wellness Platform.

Benefits Division Expansion

The Company is actively reviewing acquisitions and joint venture opportunities, together with strategic partnerships, as drivers of the Benefits Division's growth strategy. SEB has launched its Broker Affiliate Program and Joint-Venture White Label TPA Program. Both will require additional investment in sales and marketing which may weaken the Benefits Divisions results in the third quarter. Management projects a positive EBITDA by the fourth quarter as investments in the first and second quarters start to realize returns. Prior to 2016, much of the focus had been on the Technology Division. SEB's competitive advantage is technology, and it was imperative that the Company have a strong, profitable Technology Division to enable SEB to capitalize on growth opportunities in its Benefits Division.

Technology Division

The Technology Division is a profitable business with multi-year backlog in non-benefits processing areas. It has three segments which focus on Consulting/Professional Services, Systems Integration/Specialty Practices and Infrastructure

The Consulting/Professional Services segment has over 460 contract consultants and over 300 employees providing technical consulting and services to the national client base, across multiple specialty practice areas, to over 200 active corporate and government clients.

SEB operates as a systems integrator, utilizing its expertise across multiple technology platforms, together with other proprietary technologies, to provide customized solutions for highly specialized environments. Specialty practice expertise in supply chain, EDI, data migration, managed services (i.e. BPO, Security, ITIL, PeopleSoft, energy billing solutions, application support, business intelligence, ERP [Oracle], SAP, etc., certified training programs, data centre infrastructure, Call Centre infrastructure, portal solutions, FICO Solutions in fraud analysis, consulting change management, and project management). The Company maintains Gold Partnerships with Microsoft, Sequence Kinetics, DiCentral etc.

The Infrastructure segment operates two PCI (Payment Card Industry) compliant data centres plus a Disaster Recovery site in state-of-the-art environments in Canada. Hosts and supports mission critical systems for some of Canada's largest companies. It has an India outsourcing office with almost 50 employees with multiple skill certifications, supporting Canadian and UAE clients; a Call Centre providing 24/7 hosted solutions; and supply chain integration portals connect multiple suppliers across multi-currency, multi-lingual environments, integrating with warehousing, inventory and financial systems.

The Technology Division includes the following active companies:

- Somos Consulting Group Ltd.
- Stroma Service Consulting Inc.
- APS—Antian Professional Services Inc.
- Logitek Technology Ltd.
- Paradigm Consulting Group Inc.
- Inforica Inc., Inforica Technology Solutions, and Inforica Energy Solutions
- Maplesoft Group Inc., Maplesoft GTA Inc., Maplesoft Consulting Inc., Northern Brainwaves, and Group Maplesoft Quebec Inc.

Performance in the Technology Division was strong. Adjusted EBITDA for the three months ended May 31, 2016 was \$1.9 million, an increase of 77.2% over the same period prior year. During the six months ended May 31, 2016, the Technology Division contributed \$3.4 million to the consolidated Adjusted EBITDA, an increase of \$1.6 million over the same period prior year.

Technology Division Expansion

The Company expanded its Technology Division through the acquisition of Maplesoft on December 1, 2015. As one of the largest established consulting firms operating in the federal government environment, Maplesoft is perceived to be a highly valued asset. Maplesoft has a number of large contract vehicles, a well-established workforce, solid client relations and a positive and sustainable EBITDA.

Divisional restructuring

Operating changes continue to be made to each of the entities to streamline operations, reduce costs, and leverage synergies between the companies. It is anticipated that Maplesoft, SOMOS, and Antian will be amalgamated in 2016.

Corporate Division

The Corporate Division includes the following active companies:

- Smart Employee Benefits Inc.
- Smart Employee Solutions Inc.

The Corporate Division Adjusted EBITDA loss for Q2, 2016 was \$0.6 million, or \$0.2 million lower than the previous year's second quarter. This was due to lower share based compensation of \$0.3 million offset by an increase in operating costs.

Banyan Transaction and Selected Financial Information

SEB acquired 50% share ownership of Banyan in Q4, 2014. During 2014, SEB accounted for Banyan using the equity method. In Q1, 2015, the Company obtained the ability to elect an additional Board Director, thereby giving it control. It accounted for its share of results using the consolidation method. In Q1, 2016, the Company reverted to accounting for Banyan using the equity method.

Subsequent to the quarter end, the Company unwound the Banyan acquisition. On July 26, 2016, the Banyan shares were released for the following consideration:

1. Cash of \$1,625,000;
2. Return for cancellation of 2,000,000 SEB shares;
3. Release of SEB contingent obligations under the original acquisition of the Banyan Shares; and
4. Return for cancellation of the majority of employee retention warrants.

Set out below is comparative financial information for Banyan:

Highlights from Banyan's Statement of Financial Position

	<i>May 31,</i> <i>2016</i>	<i>May 31,</i> <i>2015</i>	<i>Change from</i> <i>2015</i>
Current assets	\$ 1,504,647	\$ 1,592,987	\$ (88,340)
Non-current assets	1,444,526	1,414,302	\$ 30,224
Total Assets	\$ 2,949,173	\$ 3,007,289	\$ (58,116)
Current liabilities	\$ 205,184	\$ 674,624	\$ (469,440)
Non-current liabilities	-	-	-
Total Liabilities	\$ 205,184	\$ 674,624	\$ (469,440)

Highlights from Banyan's Statement of Comprehensive Income

	Three months ended May 31			Six months ended May 31		
	2016	2015	Change	2016	2015	Change
Revenue	\$ 2,038,070	\$ 2,228,541	\$ (190,471)	\$ 3,844,616	\$ 4,231,374	\$ (386,758)
Cost of revenues	1,579,230	1,785,497	(206,267)	3,043,620	3,323,696	(280,076)
Gross Margin	458,840	443,044	15,796	800,996	907,678	(106,682)
	23%	20%		21%	21%	
Operating Costs	176,293	195,747	(19,455)	330,415	383,867	53,452
Professional fees	68,418	138,600	(70,182)	195,130	169,862	(25,268)
EBITDA	214,129	108,696	105,432	275,451	353,948	(78,498)
Net Income	\$ 374,139	\$ 108,556	\$ 265,583	\$ 72,545	\$ 205,038	\$ (132,493)
SEB's 50% interest	\$ 187,069	\$ 54,278	\$ 132,792	\$ 36,272	\$ 102,519	\$ (66,247)

Risk and Uncertainties

The Company's growth and performance are subject to a number of risks such as consumer demand, client acceptance of the Company's products and services, industry competition, technological obsolescence, obtaining and retaining competent staff and failure to obtain sufficient capital to build the required infrastructure.

Going Concern

The consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations. The unaudited condensed interim financial statements do not reflect the adjustments or reclassifications of assets and liabilities which would be necessary if the Company were unable to continue as a going concern.

SEB's accumulated deficit increased \$8.1 million from \$17.0 million at May 31, 2015 to \$25.1 million at May 31, 2016. This is attributed to losses. For the three months ended May 31, 2016 and 2015, the Company incurred net losses of \$1.1 million and \$1.9 million respectively. For the six month periods ended May 31, 2016 and 2015, SEB incurred net losses of \$3.5 million and \$1.5 million respectively.

The Company's working capital deficiency increased by \$11.0 million from \$4.6 million in May 31, 2015 to \$15.6 million in May 31, 2016, due to assumed debt resulting from acquisitions. Cash flow generated from operations for the three months ended May 31, 2016 increased by \$1.1 million from the comparable period prior year. For the six months ended May 31, 2016, cash flow increased by \$2.0 million from the comparable period prior year. Although the cash flow from operations improved during Q2, due to the improved EBITDA from the Technology Division, these conditions still raise significant doubt about the ability of the Company to continue as a going concern without additional equity or debt financing.

To remain a going concern, the Company will require additional capital to enable it to further develop its software and generate future positive cash flows. It cannot be determined at this time whether these objectives will be realized. Management of the Company has to date been successful in raising capital

through equity and debt offerings. However, there is no assurance that the Company will continue to be successful in the future.

The Company continues to make investments in entities which it believes will enhance the earnings capability of SEB. Acquisitions and investments in associate companies are made with the goal of obtaining positive cash flows which are expected to contribute to the operating results of the Company, partially based on restructurings and other initiatives management has executed following the acquisitions. However, there are no assurances that management will be successful in achieving this goal.

Uncertainty of Liquidity and Capital Requirements

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations such as accounts payable out of cash. The Company's future liquidity is dependent on factors such as the ability to generate cash from operations and to raise money through debt or equity financing. The Company has disclosed in Note 1 of the consolidated financial statements the existence of circumstances which cast significant doubt on its ability to continue as a going concern.

The Company is currently in negotiations to raise capital from several sources, in the form of debt and equity. The Company is actively pursuing alternative financing resources to retire the Maplesoft debt and the convertible debt. There are no assurances that the Company will be successful in achieving this goal.

The Company calculated that it was in default with regard to the current ratio covenant of the SOMOS facility as at November 30, 2015. The Company had also calculated that it may also be in default with regard to the Debt to Equity covenant of the Paradigm facility. By Q2, 2016, the Company has obtained notice of wavier.

Major Debt maturity schedule at July 29, 2016

		Short Term Notes	(2) Maplesoft Debt	(1) Convertibles	Bank Term Debt	Total
Fiscal 2016	Q3	1,500,000	414,550	-	175,000	2,089,550
	Q4	-	3,950,848	-	262,500	4,213,348
	Total	1,500,000	4,365,398	-	437,500	6,302,898
Fiscal 2017		-	3,770,055	4,106,667	1,050,000	8,926,722
Fiscal 2018		-	-	1,758,248	1,050,000	2,808,248
Fiscal 2019		-	-	193,873	350,000	543,873
Fiscal 2020		-	1,826,510	-	-	1,826,510
		1,500,000	9,961,963	6,058,788	2,887,500	20,408,251

⁽¹⁾ Face value of convertible loans

⁽²⁾ Debt assumed or issued to acquire Maplesoft

The borrowings of the Company under the Debt Facility and certain Notes are secured by its lenders by a general security agreement ("GSA") over substantially all of the assets of the Company. Should the Company not meet its covenants or obligations under these borrowing agreements when due, there is the risk that its lenders may realize on its security and liquidate the assets of the Company.

The future capital requirements of the Company will depend on many factors, including the number and size of acquisitions consummated, rate of growth of its client base, the costs of expanding into new markets, the growth of the market for healthcare services and the costs of administration. In order to meet such capital requirements, the Company may consider additional public or private financing (including the incurrence of debt and the issuance of additional common shares) to fund all or a part of a particular venture, which could entail dilution of current investors' interest in the Company. There can be no assurance that additional funding will be available, the Company may have to reduce substantially or

otherwise eliminate certain expenditures. There can be no assurance that the Company will be able to raise additional capital if its capital resources are depleted or exhausted. Further, due to regulatory impediments and lack of investor appetite, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares to finance acquisitions may be restricted.

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. For financial assets, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. In the normal course of business, the Company is exposed to credit risk from its customers and the related accounts receivable are subject to normal industry credit risk. To mitigate this risk the Company primarily deals with blue chip and government clients and reviews the creditworthiness of material new customers, monitors customer payment performance and, where appropriate, reviews the financial condition of existing customers. The Company establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers and economic circumstances. Given SEB's client based, Management believes the Company is not exposed to any significant credit rate risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The bank loan bears interest at floating rates and as such is subject to interest rate cash flow risk resulting from market fluctuations in interest rates. A 1% appreciation (depreciation) in the interest rate would result in a change in interest expense of approximately of \$174,017. Management believes that the Company is not currently exposed to any significant interest rate risk.

Reliance on Contracts with Key Customers

Revenues attributable to the Company's businesses are dependent upon certain significant customers. There can be no assurance that the Company's contracts with its key customers will be renewed or that the Company's services will continue to be utilized by those key customers. There could be material adverse effects on the businesses of the Company if a key customer does not renew its contracts with the Company, or elects to terminate its contracts with the Company in favour of another service provider. Further, there is no assurance that any new agreement or renewal entered into by the Company with its customers will have terms similar to those contained in current arrangements, and the failure to obtain those terms could have an adverse effect on the Company's businesses. Through acquisitions the Company has expanded its sales channels which it intends to leverage for a broader suite of services. By expanding the client base, SEB reduces reliance on specific key customers.

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes that fit particular niches within SEB's overall corporate strategy. There is no assurance that it will be able to acquire businesses on satisfactory terms or at all. These acquisitions will involve the commitment of capital and other resources, and these acquisitions could have a major financial impact in the year of acquisition and beyond. The speed and effectiveness with which SEB integrates these acquired companies into its existing businesses may have a significant short-term impact on the Company's ability to achieve its growth and profitability targets.

The successful integration and management of acquired businesses involves numerous risks that could adversely affect SEB's growth and profitability, including that:

(a) Management may not be able to manage successfully the acquired operations and the integration may place significant demands on management, thereby diverting its attention from existing operations;

- (b) Operational, financial and management systems may be incompatible with or inadequate to integrate into the Company's systems and management may not be able to utilize acquired systems effectively;
- (c) Acquisitions may require substantial financial resources that could otherwise be used in the development of other aspects of the business;
- (d) Acquisitions may result in liabilities and contingencies which could be significant to the Company's operations; and
- (e) Personnel from SEB's acquisitions and its existing businesses may not be integrated as efficiently or at the rate foreseen.

The acquisition of companies or assets involves a long cost recovery cycle. The sales processes for the products that these companies offer are often subject to lengthy customer approval processes. Failures by the Company in achieving signed contracts after the investment of significant time and effort in the sales process could have an adverse impact on the Company's operating results.

To mitigate the above noted risks, the Company performs significant due diligence on acquisition targets, and identifies both risks and opportunities before finalization.

Information Technology Systems

SEB's businesses depend, in part, on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt the Company's ability to operate effectively, which in turn could adversely affect its business, results of operations and financial condition.

The Company's computer systems may be vulnerable to damage from a variety of sources, including physical or electronic break-ins, computer viruses and similar disruptive problems. Despite precautions taken, unanticipated problems affecting the information technology systems could cause interruptions for which the Company's insurance policies may not provide adequate compensation.

SEB's risk mitigation strategy for its information systems includes the maintenance of secure infrastructure, third party monitoring, and disaster recovery strategies.

Confidentiality of Personal and Health Information

The Company and its subsidiaries' employees have access, in the course of their duties, to personal information of clients of the Company and specifically their medical histories. There can be no assurance that the Company's existing policies, procedures and systems will be sufficient to address the privacy concerns of existing and future clients. If a client's privacy is violated, or if SEB is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

SEB takes client privacy very seriously and complies with all aspects of the PIPEDA legislation. Employees are trained on privacy, and sign written acknowledgement and non-disclosure agreements. Further data is maintained in restricted areas on a secure infrastructure.

Key Personnel

The Company believes that its future success will depend significantly upon its ability to attract, motivate and retain highly skilled executive management. In addition, the success of each business unit depends on employing or contracting, as the case may be, qualified professionals. Currently, there is a shortage of such qualified personnel in Canada. The Company will compete with other potential employers for employees and it may not be successful in keeping the services of the executives and other employees, including professionals that it requires. The loss of highly skilled executives and professionals or the inability to recruit these individuals in markets that the Company operates in could adversely affect the Company's ability to operate its business efficiently and profitably. To mitigate these risks, SEB provides

a competitive compensation package, and has recently recruited a new executive to head SEB Administration Services Inc., a subsidiary in the Benefits Division.

Accounting, Tax and Legal Rules and Laws

Any changes to accounting and/or tax standards and pronouncements introduced by authorized bodies may impact on the Company's financial performance. Additionally, changes to any of the federal and provincial laws, regulations or policies in jurisdictions where the Company operates could materially affect the Company's operations and its financial performance. The Company may also incur significant costs in order to comply with any proposed changes. The Company's failure to comply with laws, regulations or policies may expose the Company to legal or regulatory proceedings which could have a material impact on the Company's financial performance. Through continuous education and training, SEB employees are kept abreast of the changing legal and regulatory environment before changes come into effect, allowing the Company to sufficiently plan for any anticipated impact.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company. Management does not expect that Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the shares and SEB's business, financial condition and results of operations.

The Company needs to comply with financial reporting and other requirements as a public company. The Company is subject to reporting and other obligations under applicable Canadian securities laws and TSX-V rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

To mitigate these risks, the Company hires seasoned professionals as employees/contractors, and has a strong working relationship with its auditors, which provide annual control assessments and recommendations to the Management and the Audit Committee. The Management and Board, in conjunction with its Audit Committee, are responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures and make adjustments as necessary.

Capital Investment

The timing and amount of capital expenditures by the Company will be dependent upon the Company's ability to utilize credit facilities, raise new debt/equity, generate cash from operations, meet working capital requirements and sell additional shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated. Lack of these funds could limit the future growth of the Company and its subsidiaries and their respective cash flows. To mitigate the situation, the Company is actively pursuing alternative financing with the aid of an experienced financing institution.

Ethical Business Conduct

A violation of law, the breach of Company policies or unethical behavior may impact on the Company's reputation which in turn could negatively affect the Company's financial performance. The Company has established policies and procedures, including a Code of Business Conduct, to support a culture with high ethical standards.

Volatile Market Price for Securities of the Company

The market price for securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- changes in estimates of future results of operations by the Company or securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- addition or departure of the Company's executive officers and other key personnel;
- release or other transfer restrictions on outstanding securities;
- sales or perceived sales of additional securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and,
- news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the of the Company may decline even if the Company's operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, the Company's operations and the trading price of the Company's securities may be adversely affected.

To mitigate, the Company has engaged an Investor Relations firm which will assist with communication of the industry, the market and the Company to the investment community.

Future Sales of the Company's Securities by Directors and Executive Officers

Subject to compliance with applicable securities laws, directors and executive officers and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's directors and executive officers and their controlled entities, or the perception that such sales could occur, could adversely affect prevailing market prices for the Company's securities.

To mitigate this risk, SEB has put in place policies, procedures and guidelines which prevent trading of securities during certain periods.

Directors and Officers may have a Conflict of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are being made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Non-IFRS Financial Measures Definitions and Reconciliation

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as EBITDA and Adjusted EBITDA. These measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. As these measures do not have standardized meaning subscribed under IFRS, and may not be comparable to similar measures used by other companies, the following definitions are provided, and a reconciliation table is noted below:

“EBITDA” is defined as earnings before interest, interest accretion, income taxes, and depreciation of equipment and amortization of intangibles.

“Adjusted EBITDA” is operating earnings before one-time expenses. It is defined as earnings before gain on sale of a portion of the business, transaction costs, write-down of intangibles, interest, interest accretion, income taxes and depreciation of equipment and amortization of intangible assets. The Company believes that Adjusted EBITDA is a meaningful financial metric as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives.

“Acquisition and financing costs” is defined as transaction costs such as legal and other professional costs associated with the acquisition of a new company or debt.

The below table, reconciles both EBITDA and Adjusted EBITDA to “Net Loss and Comprehensive Loss” as presented in the Unaudited Interim Consolidated Statements of Comprehensive Loss:

	<i>Three months</i>		<i>Six months</i>	
	<i>31-May-16</i>	<i>31-May-15</i>	<i>31-May-16</i>	<i>31-May-15</i>
Net Loss and Comprehensive Loss	\$ (1,061,278)	\$ (1,929,888)	\$ (3,487,993)	\$ (1,474,943)
Interest	693,417	330,458	1,502,957	455,582
Accretion of interest	70,826	187,892	260,330	382,404
Income tax expense (recovery)	1,140	(71,485)	1,140	(2,107)
Depreciation	46,714	65,714	150,226	100,722
Amortization	1,025,738	724,802	2,030,142	1,408,102
EBITDA:	776,557	(692,507)	456,802	869,760
Gain on sale of a portion of business	-	100,000	-	(1,100,000)
Acquisition and Financing costs	295,967	830,127	613,694	830,127
Adjusted EBITDA:	1,072,524	237,620	1,070,496	599,887