
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 8-K/A
(Amendment No. 1)**

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

August 3, 2012

Date of report (Date of earliest event reported)

XPO Logistics, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

001-32172
(Commission
File Number)

03-0450326
(I.R.S. Employer
Identification No.)

**Five Greenwich Office Park
Greenwich, CT 06831**
(Address of principal executive offices)

(855) 976-4636
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01. Completion of Acquisition or Disposition of Assets.

This Amendment No. 1 to Form 8-K amends our Form 8-K dated August 3, 2012, originally filed with the Securities and Exchange Commission on August 9, 2012 (the "Original Report"). We filed the Original Report to report our acquisition of the freight brokerage operations of Kelron Corporate Services Inc. and certain affiliated companies (collectively, "Kelron").

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

The combined balance sheets of Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC as of March 31, 2012, March 31, 2011 and April 1, 2010, and the related combined statements of operations, retained earnings and cash flows for the years ended March 31, 2012 and March 31, 2011 required by this Item 9.01(a) are attached hereto as Exhibit 99.2 and are incorporated herein by reference.

(b) *Pro Forma Financial Information.*

The unaudited pro forma financial information required by Item 9.01(b) pursuant to Article 11 of Regulation S-X is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

(d) *Exhibits.*

Exhibit
Number

23.1	Consent of Zeifmans LLP Chartered Accountants, independent auditors
99.1	Pro Forma Financial Information Unaudited pro forma condensed combined consolidated balance sheet as of June 30, 2012, and statements of operations for the six months ended June 30, 2012 and the year ended December 31, 2011
99.2	Financial Statements of Businesses Acquired (i) Independent Auditors' Report (ii) Combined balance sheets of Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC as of March 31, 2012, March 31, 2011 and April 1, 2010, and the related combined statements of operations, retained earnings and cash flows for the years ended March 31, 2012 and March 31, 2011

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XPO Logistics, Inc.

/s/ John J. Hardig

John J. Hardig
Chief Financial Officer

Date: October 17, 2012

EXHIBIT INDEX

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Exhibit 23.1

Consent of Independent Auditor

We consent to the incorporation by reference in the registration statement (No. 333-176700) on Form S-3 of XPO Logistics, Inc. of our report dated September 17, 2012, with respect to the combined financial statements of Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC which comprise the combined balance sheets as of March 31, 2012, March 31, 2011 and April 1, 2010, and the combined statements of operations, retained earnings and cash flows for the years ended March 31, 2012 and March 31, 2011, which report appears in this Amendment No. 1 to Current Report on Form 8-K/A of XPO Logistics, Inc. dated August 3, 2012.

/s/ Zeifmans LLP

ZEIFMANS LLP CHARTERED ACCOUNTANTS

Toronto, Ontario, Canada

October 17, 2012

Exhibit 99.1

On August 3, 2012, XPO Logistics, Inc. (“XPO Logistics” or the “Company”) acquired the freight brokerage operations of Kelron Corporate Services Inc. and certain affiliated companies, which operate a non-asset-based, third party logistics business in Toronto, Ontario, Montreal, Quebec, Vancouver, British Columbia, and Cleveland, Ohio. The purchase was completed through two related transactions (collectively the “Transactions”): XPO’s wholly-owned subsidiary, XPO Logistics Canada Inc., an Ontario corporation (“XPO Canada”), entered into a Share Purchase Agreement, dated August 3, 2012 (the “Share Purchase Agreement”), with 1272387 Ontario Inc., 1272393 Ontario Inc., Keith Matthews and Geoff Bennett (collectively, the “Share Sellers”), pursuant to which XPO Canada purchased all of the outstanding capital stock of Kelron Corporate Services Inc. Contemporaneously with the execution of the Share Purchase Agreement, XPO Logistics, LLC, a Delaware limited liability company and wholly-owned subsidiary of XPO Logistics (“XPO LLC”), entered into an Asset Purchase Agreement, dated August 3, 2012 (the “Cleveland Agreement” and together with the Share Purchase Agreement, the “Purchase Agreements”), with Kelron Distribution Systems (Cleveland) LLC (“Kelron Cleveland”), a Delaware limited liability company, Geoff Bennett and Keith Matthews (collectively, the “Asset Sellers” and together with the Share Sellers, the “Sellers”), pursuant to which XPO LLC purchased substantially all of the assets of Kelron Distribution Systems (Cleveland) LLC. The total consideration payable under the Purchase Agreements for XPO Canada and Kelron Cleveland (collectively “Kelron”) was approximately \$8.0 million, payable in cash, deferred payments (including an escrow), and assumption of certain indebtedness. The assets purchased under the Cleveland Agreement included rights under certain contracts, intellectual property, office equipment, account receivables, and other related assets.

The following unaudited pro forma condensed combined financial statements and related notes combine the historical consolidated balance sheets and statements of operations of XPO Logistics and the combined balance sheets and statements of operations of Kelron. XPO Logistics has a fiscal year end as of December 31, and Kelron has a fiscal year end as of March 31. For purposes of preparing the unaudited pro forma condensed combined financial statements, as permitted by SEC rules and regulations, XPO Logistics has combined the XPO Logistics condensed consolidated statement of operations for the twelve months ended December 31, 2011 and six months ended June 30, 2012 with Kelron’s statement of operations for the twelve months ended March 31, 2012 and six months ended March 31, 2012, respectively.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2011 and the six months ended June 30, 2012 give effect to the Transactions as if they had occurred on January 1, 2011. The unaudited pro forma condensed combined balance sheet assumes that the Transactions were completed on June 30, 2012. The unaudited pro forma condensed combined balance sheet and condensed combined statement of operations of XPO Logistics as of and for the six months ended June 30, 2012 were derived from its unaudited condensed consolidated financial statements as of June 30, 2012 (as filed on Form 10-Q with the SEC on August 7, 2012). The unaudited pro forma condensed combined statement of operations of XPO Logistics for the twelve months ended December 31, 2011 was derived from the audited consolidated financial statements of XPO Logistics for the year ended December 31, 2011 (as filed on Form 10-K with the SEC on March 1, 2012). The unaudited pro forma condensed combined statement of operations of Kelron as of and for the six months ended March 31, 2012 were derived from its combined financial statements as of and for the year ended March 31, 2012. The unaudited pro forma condensed combined balance sheet and condensed combined statement of operations of Kelron for the twelve months ended March 31, 2012 were derived from the audited combined financial statements of Kelron for the twelve months ended March 31, 2012.

In order to present a pro forma condensed combined statement of operations for the six month period ended June 30, 2012 that would be comparable to that of the XPO Logistics, it was necessary for Kelron to prepare unaudited results for the six months ended March 31, 2012. Accordingly, the accompanying unaudited pro forma condensed combined statements of operations present results for overlapping periods. The unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2012 presents Kelron’s unaudited condensed consolidated statement of operations for the six months ended March 31, 2012. This same period is presented again as the last six months in the unaudited consolidated statement of operations for the twelve months ended December 31, 2011.

The historical consolidated financial information of XPO Logistics and combined financial information of Kelron have been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the Transactions, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements.

The historical combined financial statements of Kelron have been prepared in accordance with Canadian GAAP. In certain respects U.S. GAAP differs from Canadian GAAP. A summary of the differences between U.S. GAAP and Canadian GAAP applicable to Kelron's audited combined financial statements is included in the footnotes to Kelron's combined financial statements as of and for the twelve months ended March 31, 2012, which are part of this Form 8-K/A filing. The unaudited pro forma condensed combined financial statements reflect adjustments to present Kelron's historical information under U.S. GAAP. The translations of the historical Kelron combined financial statements from Canadian Dollars (\$CAD) to U.S. Dollars (\$USD) used in the preparation of these unaudited pro forma condensed combined financial statements are as follows:

- Kelron's condensed combined balance sheet as of March 31, 2012 translated to \$USD using a spot rate of \$0.997, which approximates the \$CAD to \$USD conversion rate at March 31, 2012.
- Kelron's condensed combined statement of operations for the six months ended March 31, 2012, translated to \$USD using an average rate of \$1.013, which approximates the \$CAD to \$USD conversion rate for the six months ended March 31, 2012.
- Kelron's condensed combined statement of operations for the twelve months ended March 31, 2012, translated to \$USD using an average rate of \$0.993, which approximates the \$CAD to \$USD conversion rate for the twelve months ended March 31, 2012.

The unaudited pro forma condensed combined financial statements have been presented for illustrative purposes only and are not intended to represent or be indicative of what the combined company's financial position or results of income actually would have been had the acquisition been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. The unaudited pro forma condensed combined financial information does not include the impacts of any revenue, cost or other operating synergies that may result from the Kelron acquisition. In connection with the acquisition of Kelron, XPO Logistics incurred certain insignificant transaction costs which are not included in the unaudited pro forma condensed combined financial statements.

XPO Logistics, Inc
Unaudited Pro Forma Condensed Combined Balance Sheet
As of June 30, 2012
(In thousands)

	XPO	Kelron			Pro Forma Adjustments 2(b)	Pro Forma Combined	
	Historic	Historic in \$CAD, Canadian GAAP	US GAAP Adjustments 2(a)	Historic in \$CAD, US GAAP			Historic in \$USD, US GAAP
ASSETS							
Cash	190,712	81		81	81	(4,681)(2)(3)	186,112
Accounts receivable, net of allowances	30,834	9,719		9,719	9,748	—	40,582
Prepaid expenses	732	113		113	113	—	845
Deferred tax asset, current	46	—		—	—	—	46
Income taxes receivable	2,497	—		—	—	—	2,497
Other current assets	719	—		—	—	—	719
Total current assets	225,540	9,913	—	9,913	9,942	(4,681)	230,801
Property, plant and equipment, net of accumulated depreciation	6,694	663		663	665	—	7,359
Goodwill	19,084	1,050		1,050	1,053	2,465(4)	22,602
Identifiable intangible assets, net of accumulated amortization	8,902	—		—	—	1,895(5)	10,797
Other long-term assets	511	2,958		2,958	2,967	(2,967)(6)	511
Total long-term assets	35,191	4,671	—	4,671	4,685	1,393	41,269
Total assets	260,731	14,584	—	14,584	14,627	(3,288)	272,070
LIABILITIES AND STOCKHOLDERS' EQUITY							
Accounts payable	8,329	8,143		8,143	8,167	—	16,496
Accrued salaries and wages	1,177	—		—	—	—	1,177
Accrued expenses, other	6,196	—		—	—	—	6,196
Current maturities of long-term debt and capital leases	28	2,976		2,976	2,985	(2,985)(3)	28
Other current liabilities	1,026	740		740	742	—	1,768
Total current liabilities	16,756	11,859	—	11,859	11,894	(2,985)	25,665
Long-term debt and capital leases, net of current maturities	103	—		—	—	930(7)	1,033
Deferred tax liability, long-term	3,395	—	1,004(1)	1,004	1,007	493(8)	4,895
Other long-term liabilities	2,130	3,310		3,310	3,320	(3,320)(6)	2,130
Total long-term liabilities	5,628	3,310	1,004	4,314	4,327	(1,897)	8,058
Stockholders' equity:							
Preferred stock	42,794	—		—	—	—	42,794
Common stock	17	—		—	—	—	17
Additional paid-in capital	241,962	—		—	—	—	241,962
Treasury stock	(107)	—		—	—	—	(107)
Accumulated (deficit) earnings	(46,319)	2	(1,004)(1)	(1,002)	(1,005)	1,005(9)	(46,319)
Noncontrolling Interest	—	(587)		(587)	(589)	589(9)	—
Total stockholders' equity	238,347	(585)	(1,004)	(1,589)	(1,594)	1,594	238,347
Total liabilities and stockholders' equity	260,731	14,584	—	14,584	14,627	(3,288)	272,070

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

XPO Logistics, Inc
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended June 30, 2012
(In thousands, except for per share data)

	XPO	Kelron			Pro Forma Adjustments 3(b)	Pro Forma Combined	
	Historic	Historic in SCAD, Canadian GAAP	US GAAP Adjustments 3(a)	Historic in \$CAD, US GAAP			Historic in \$USD, US GAAP
Revenue							
Operating revenue	99,100	49,265		49,265	48,647	—	147,747
Expense							
Direct expense	83,861	43,226		43,226	42,684	—	126,545
Gross Margin	15,239	6,039	—	6,039	5,963	—	21,202
Selling, general and administrative expenses	22,831	6,307		6,307	6,228	106(2)	29,165
Operating (loss) income	(7,592)	(268)	—	(268)	(265)	(106)	(7,963)
Other (income) expense	5	—		—	—	—	5
Interest expense	15	127		127	125	(114)(3)	26
Gain (loss) on foreign currency translation	—	101		101	100		100
(Loss) income before income tax provision	(7,612)	(294)	—	(294)	(290)	8	(7,894)
Income tax provision/(benefit)	259	52	(99)(1)	(47)	(46)	2(4)	215
Net (loss) income	(7,871)	(346)	99	(247)	(244)	6	(8,109)
Undeclared cumulative preferred dividends	(1,500)	—		—	—	—	(1,500)
Preferred stock beneficial conversion charge and dividends	—	—		—	—	—	—
Net (loss) income available to common shareholders	<u>(9,371)</u>	<u>(346)</u>	<u>99</u>	<u>(247)</u>	<u>(244)</u>	<u>6</u>	<u>(9,609)</u>
Basic earnings per common share		—					
Income from continuing operations	(0.56)	—		—	—	—	(0.58)
Net (loss) income	(0.56)	—	—	—	—	—	(0.58)
Diluted earnings per common share		—					
Income from continuing operations	(0.56)	—		—	—	—	(0.58)
Net (loss) income	(0.56)	—	—	—	—	—	(0.58)
Weighted average common shares outstanding		—					
Basic weighted average common shares outstanding	16,629	—		—	—	—	16,629
Diluted weighted average common shares outstanding	16,629	—		—	—	—	16,629

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

XPO Logistics, Inc
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Twelve Months Ended December 31, 2011
(In thousands, except for per share data)

	XPO	Kelron				Pro Forma Adjustments 3(b)	Pro Forma Combined
	Historic	Historic in \$CAD, Canadian GAAP	US GAAP Adjustments 3(a)	Historic in \$CAD, US GAAP	Historic in \$USD, US GAAP		
Revenue							
Operating revenue	177,076	100,358		100,358	101,076	—	278,152
Expense							
Direct expense	147,298	88,493		88,493	89,126	—	236,424
Gross Margin	29,778	11,865	—	11,865	11,950	—	41,728
Selling, general and administrative expenses	28,054	12,943		12,943	13,036	210(2)	41,300
Operating (loss) income	1,724	(1,078)	—	(1,078)	(1,086)	(210)	428
Other (income) expense	56	—		—	—	—	56
Interest expense	191	232		232	234	(211)(3)	214
Gain (loss) on foreign currency translation	—	111		111	112	—	112
(Loss) income before income tax provision	1,477	(1,199)	—	(1,199)	(1,208)	1	270
Income tax provision/(benefit)	718	82	(198)(1)	(116)	(117)	— (4)	601
Net (loss) income	759	(1,281)	198	(1,083)	(1,091)	1	(331)
Undeclared cumulative preferred dividends	—	—		—	—	—	—
Preferred stock beneficial conversion charge and dividends	(45,336)	—		—	—	—	(45,336)
Net (loss) income available to common shareholders	<u>(44,577)</u>	<u>(1,281)</u>	<u>198</u>	<u>(1,083)</u>	<u>(1,091)</u>	<u>1</u>	<u>(45,667)</u>
Basic earnings per common share							
Income from continuing operations	(5.41)	—		—	—	—	(5.54)
Net (loss) income	(5.41)	—	—	—	—	—	(5.54)
Diluted earnings per common share							
Income from continuing operations	(5.41)	—		—	—	—	(5.54)
Net (loss) income	(5.41)	—	—	—	—	—	(5.54)
Weighted average common shares outstanding							
Basic weighted average common shares outstanding	8,247	—		—	—	—	8,247
Diluted weighted average common shares outstanding	8,247	—		—	—	—	8,247

See accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Data

(Dollar Amounts are Presented in Thousands)

(1) Purchase Price

The estimated purchase price and the allocation of the estimated purchase price discussed below are preliminary, and subject to certain post-closing adjustments. A final determination of required adjustments will be made based upon an independent appraisal of the fair value of related long-lived tangible and intangible assets and the determination of the fair value of certain other acquired assets and assumed liabilities. The following is a preliminary estimate of the purchase price of Kelron:

<u>Description</u>	<u>\$CAD</u>	<u>\$USD^(a)</u>
Escrow payment holdback ^(b)	\$ 1,000	\$ 998
Cash payment to Sellers	700	698
Fair value of cash consideration	<u>\$ 1,700</u>	<u>\$ 1,696</u>
Note Payable issued to seller ^(c)	466	465
Note Payable issued to seller ^(c)	466	465
Fair value of non cash consideration	<u>\$ 932</u>	<u>\$ 930</u>
Fair value of total consideration	<u>\$ 2,632</u>	<u>\$ 2,626</u>

- (a) As payment was made in \$CAD, the following balances have been adjusted based on the transaction day spot rate of 1.00 \$USD: 1.00229 \$CAD
- (b) XPO Logistics deposited approximately \$998 with an attorney to an escrow account to be later used in satisfying payment to the seller. The amount held in this account will be used to satisfy general representations and warranties of the transaction.
- (c) XPO Logistics issued two notes payable to the former owners of Kelron. Each note has a face value of \$500 and requires quarterly principle payments. The notes were issued at a zero interest rate and have a three year life.

The following table summarizes the purchase price allocation adjustments of the assets acquired and liabilities assumed as if the acquisition date was June 30, 2012. The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the final evaluation of the fair value of our tangible and identifiable intangible assets acquired and liabilities assumed. An independent third-party appraiser assisted in performing a preliminary valuation of these assets and upon a final valuation the purchase price allocation will be adjusted. Such final adjustments, including increases to depreciation and amortization resulting from the allocation of purchase price to amortizable tangible and intangible assets, may be material. Adjustments to the fair value of identifiable tangible and intangible assets acquired and liabilities assumed will impact the value of goodwill recognized in the transaction, and the adjustment to goodwill may be material. For illustrative purposes the preliminary allocation of the purchase price to the fair value of Kelron's assets acquired and liabilities assumed assuming the acquisition date was June 30, 2012 is presented as follows.

<u>Description</u>	<u>\$USD</u>
Estimated carrying value of Kelron net assets ^(a)	\$ (1,594)
Less: Assets not acquired in transaction	(2,967)
Less: Liabilities not assumed in transaction	3,320
Total carrying value of Kelron assets acquired	<u>\$ (1,241)</u>
Fair value of Trademarks / Trade Names	\$ 249
Fair value of Technology	75
Fair value of Non Compete Agreement	374
Fair value of Customer Relationships	1,197
Transaction related goodwill adjustment	2,465
Net deferred tax liability on fair value adjustments	(493)
	<u>\$ 2,626</u>

- (a) Management believes the historical carrying amounts approximate fair value

Notes to Unaudited Pro Forma Condensed Combined Financial Data

(Dollar Amounts are Presented in Thousands)

(2) Description of Pro Forma Adjustments, as presented on the June 30, 2012 Balance Sheet

- a. Represents certain adjustments to convert Kelron financial statements to US GAAP.
- (1) Represents the balance sheet impact from a Canadian GAAP to US GAAP measurement difference in which US GAAP requires measurement of an uncertain tax position as the largest amount that is greater than 50% likely of being realized upon settlement, and Canadian GAAP requires measurement of the best estimate of the amount that is more likely than not to be realized.
- b. Represents purchase price adjustments for the acquisition of Kelron as follows:
- (2) Represents an adjustment for the cash portion of the transaction price of \$1,696.
- (3) In connection with the Transactions, all bank indebtedness of Kelron of \$2,985 was immediately repaid.
- (4) Eliminates goodwill recorded in the historical financial statements of Kelron and records the preliminary fair value of goodwill resulting from the pro forma allocation of the purchase price as if the acquisition had occurred using pro forma balances. Goodwill resulting from the acquisition is not amortized, and will be assessed for impairment at least annually in accordance with applicable accounting guidance on goodwill.
- (5) Represents the preliminary allocation of purchase price to identifiable intangible assets, as follows:
- | | |
|--------------------------|-----------------|
| Trademarks / Trade Names | \$ 249 |
| Technology | 75 |
| Covenant not to Compete | 374 |
| Customer Relationships | 1,197 |
| | <u>\$ 1,895</u> |
- (6) Represents adjustments to the combined company for assets and liabilities of Kelron not acquired by XPO Logistics, including, assets of \$2,967 (including, \$275 of receivables of related parties and a \$2,692 life insurance investment) and \$3,320 of payables of related parties.
- (7) Records \$930 for the issuance of two note payables to the former owners of Kelron, as discussed in Note 1, Purchase Price.
- (8) Records \$493 of net deferred tax liability related to the step up in the fair values of assets acquired (including identifiable intangible assets) and liabilities assumed using the Canadian statutory income tax rate, adjusted for an Ontario Provisional rate, of 26.0%.
- (9) Reflects adjustments to eliminate Kelron's historical shareholders' equity.

Notes to Unaudited Pro Forma Condensed Combined Financial Data

(Dollar Amounts are Presented in Thousands)

(3) Description of Pro Forma Adjustments, as presented on the June 30, 2012 and December 31, 2011 Statements of Operations

- a. Represents certain adjustments to convert Kelron financial statements to US GAAP.
 - (1) Represents the income statement impact from a Canadian GAAP to US GAAP measurement difference in which US GAAP requires measurement of an uncertain tax position as the largest amount that is greater than 50% likely of being realized upon settlement, and Canadian GAAP requires measurement of the best estimate of the amount that is more likely than not to be realized.
- b. Represents purchase price adjustments for the acquisition of Kelron as follows:
 - (2) To record pro forma amortization expense of \$106 and \$210 for the June 30, 2012 and December 31, 2011 unaudited pro forma condensed combined statements of operations, respectively, on the portion of the purchase price allocated to intangible assets. Kelron had no historic amortization of intangible assets for the six and twelve month periods, respectively. Pro forma amortization is calculated as follows:

	Preliminary Fair Value (\$USD)	Estimated Useful Life (years)	Estimated Amortization ^(a)	
			For the 6 months ended June 30, 2012	For the 12 months ended December 31, 2011
Trademarks / Trade Names ^(b)	\$ 249	0.50	\$ N/A	\$ N/A
Technology	75	5.00	8	15
Covenant not to Compete	374	5.00	38	75
Customer Relationships	1,197	10.00	60	120
	<u>\$ 1,895</u>		<u>\$ 106</u>	<u>\$ 210</u>

- (a) Amortization expense has been calculated using the straight-line method over the estimated useful life.
- (b) As the amortization associated with this amount is non-recurring in nature (over a single period) no pro forma adjustments will be recognized.
 - (3) Represents the removal of interest related to extinguished debt of Kelron of \$125, and \$234 for the June 30, 2012 and December 31, 2011 unaudited pro forma condensed combined statements of operations, respectively, and interest expense on the notes payable issued to the sellers for \$11, and \$23 for the June 30, 2012 and December 31, 2011 unaudited pro forma condensed combined statements of operations, respectively.
 - (4) Represents the income tax effect of the pro forma adjustments calculated using the Canadian statutory income tax rate, adjusted for an Ontario Provisional rate, of 26.0%.

**KELRON CORPORATE SERVICES INC. AND
KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
COMBINED FINANCIAL STATEMENTS
MARCH 31, 2012**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC

We have audited the accompanying combined financial statements of Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC which comprise the combined balance sheet as at March 31, 2012, March 31, 2011 and April 1, 2010 and the combined statement of operations, statement of retained earnings and statement of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Kelron Corporate Services Inc. and Kelron Distribution Systems (Cleveland) LLC as at March 31, 2012, March 31, 2011 and April 1, 2010 and their combined operations and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian accounting standards for private enterprises.

Zeifmans LLP

Toronto, Ontario
September 17, 2012

Chartered Accountants
Licensed Public Accountants

KELRON CORPORATE SERVICES INC. AND KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
(Incorporated Under the Laws of Ontario) (Formed Under the Laws of Delaware)

COMBINED BALANCE SHEET

	AS AT MARCH 31, 2012		
	March 31, 2012	March 31, 2011 (note 2)	April 1, 2010 (note 2)
ASSETS			
CURRENT			
Cash	\$ 80,597	\$ 1,653,176	\$ 1,902,640
Accounts receivable (note 4)	9,719,145	10,447,986	8,809,751
Prepaid expenses	113,314	147,389	151,543
	<u>9,913,056</u>	<u>12,248,551</u>	<u>10,863,934</u>
OTHER			
Property and equipment (note 5)	662,865	526,095	681,053
Future income taxes (note 11)	—	208,683	41,330
Due from related parties (note 6)	274,595	464,830	297,556
Investment in life insurance	2,683,662	1,772,018	1,360,121
Goodwill	1,050,000	1,050,000	1,050,000
	<u>4,671,122</u>	<u>4,021,626</u>	<u>3,430,060</u>
TOTAL ASSETS	<u>\$14,584,178</u>	<u>\$16,270,177</u>	<u>\$14,293,994</u>
LIABILITIES			
CURRENT			
Bank indebtedness (note 7)	\$ 2,975,565	\$ 1,245,000	\$ —
Accounts payable and accrued liabilities	8,142,203	9,763,980	7,726,621
Income taxes payable	643,602	924,972	1,251,163
Accrued bonus payable	—	28,314	121,022
Government remittances payable	96,568	269,758	114,051
Current portion of obligations under capital leases	—	—	24,512
	<u>11,857,938</u>	<u>12,232,024</u>	<u>9,237,369</u>
LONG-TERM			
Due to related parties (note 6)	3,309,909	1,041,171	963,890
Lease inducements	—	—	33,166
	<u>3,309,909</u>	<u>1,041,171</u>	<u>997,056</u>
TOTAL LIABILITIES	<u>15,167,847</u>	<u>13,273,195</u>	<u>10,234,425</u>
LEASE COMMITMENTS (note 8)			
SHAREHOLDERS' EQUITY			
STATED CAPITAL (note 9)	1,300	1,300	300
RETAINED EARNINGS - statement 2	<u>2,204</u>	<u>3,157,795</u>	<u>4,087,318</u>
TOTAL SHAREHOLDERS' EQUITY	3,504	3,159,095	4,087,618
NON-CONTROLLING INTEREST	<u>(587,173)</u>	<u>(162,113)</u>	<u>(28,049)</u>
	<u>\$14,584,178</u>	<u>\$16,270,177</u>	<u>\$14,293,994</u>

STATEMENT 1

See accompanying notes to financial statements.

KELRON CORPORATE SERVICES INC. AND KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
COMBINED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
Balance, beginning of the year	\$ 3,157,795	\$4,087,318 (note 2)
Net loss for the year attributable to shareholders of the Group - statement 3	(855,591)	(129,523)
Dividends paid on common shares of Kelron Corporate Services Inc.	(2,300,000)	(800,000)
Balance, end of the year	<u>\$ 2,204</u>	<u>\$3,157,795</u>

STATEMENT 2

See accompanying notes to financial statements.

KELRON CORPORATE SERVICES INC. AND KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2012

	2012	2011
		(note 2)
SALES	\$100,358,234	\$95,050,995
COST OF SALES	88,493,452	83,162,436
GROSS PROFIT	11,864,782	11,888,559
EXPENSES		
Salaries	9,014,405	8,141,942
Consulting fees	725,117	682,611
Occupancy costs	657,753	590,904
Auto and travel	400,501	476,388
Telephone	338,330	313,986
General and administrative	333,983	275,824
Amortization	245,914	267,105
Commissions	235,281	319,133
Interest and bank charges	232,180	119,045
Insurance	206,615	139,311
Professional fees	189,185	292,992
Advertising and promotion	162,026	224,555
Bad debts	145,707	108,357
Dues and subscriptions	92,401	62,693
Meals and entertainment	91,504	112,015
Repairs and maintenance	60,229	72,383
Training and seminars	43,738	66,574
	13,174,869	12,265,818
NET OPERATING LOSS	(1,310,087)	(377,259)
GAIN (LOSS) ON FOREIGN CURRENCY TRANSLATION	111,470	(42,819)
LOSS BEFORE INCOME TAXES	(1,198,617)	(420,078)
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(126,649)	10,862
Future	208,683	(167,353)
	82,034	(156,491)
NET LOSS	\$ (1,280,651)	\$ (263,587)
ATTRIBUTABLE TO NON-CONTROLLING INTEREST	\$ (425,060)	\$ (134,064)
ATTRIBUTABLE TO SHAREHOLDERS OF THE GROUP	(855,591)	(129,523)
NET LOSS	\$ (1,280,651)	\$ (263,587)

STATEMENT 3

See accompanying notes to financial statements.

KELRON CORPORATE SERVICES INC. AND KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
COMBINED CASH FLOW STATEMENT
FOR THE YEAR ENDED MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss for the year attributable to shareholders of the Group	\$ (855,591)	\$ (129,523)
Items not requiring an outlay (providing an inflow) of cash:		
Amortization	245,914	267,105
Non-controlling interest	(425,060)	(134,064)
Future income taxes	208,683	(167,353)
Amortization of deferred lease inducement	—	(33,166)
Net changes in non-cash working capital items related to operations:		
Accounts receivable	728,841	(1,638,235)
Prepaid expenses	34,075	4,154
Accounts payable and accrued liabilities	(1,650,091)	1,944,561
Government remittances payable	(173,190)	155,707
Income taxes	(281,370)	(326,191)
	<u>(2,167,789)</u>	<u>(57,005)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase in bank indebtedness	1,730,565	1,245,000
Repayment of obligations under capital leases	—	(24,512)
Decrease (increase) in due from related parties	190,235	(167,274)
Proceeds from issuance of member's contribution	—	1,000
Advances from related parties	2,268,738	77,281
Dividends paid on common shares	(2,300,000)	(800,000)
	<u>1,889,538</u>	<u>331,495</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisition of equipment	(382,684)	(112,057)
Investment in life insurance	(911,644)	(411,897)
	<u>(1,294,328)</u>	<u>(523,954)</u>
NET DECREASE IN CASH FOR THE YEAR	(1,572,579)	(249,464)
CASH, BEGINNING OF THE YEAR	1,653,176	1,902,640
CASH, END OF THE YEAR	<u>\$ 80,597</u>	<u>\$ 1,653,176</u>

STATEMENT 4

See accompanying notes to financial statements.

KELRON CORPORATE SERVICES INC. AND KELRON DISTRIBUTION SYSTEMS (CLEVELAND) LLC
NOTES TO COMBINED FINANCIAL STATEMENTS
MARCH 31, 2012

1. **BASIS OF PRESENTATION**

(a) **Operations -**

Kelron Corporate Services Inc. ("KCSI") and Kelron Distribution Systems (Cleveland) LLC ("KCVL") are non-asset based third party logistics organizations engaged in on-demand transportation brokerage and transportation management throughout North America.

(b) **Combination -**

These combined financial statements include the accounts of KCSI and KCVL (together, the "Group").

KCSI and KCVL are under common control. All inter-group transactions and balances have been eliminated.

The accounts of KCSI include the entity and its subsidiaries as follows:

	Percentage ownership
Kelron Distribution Systems Inc.	100%
Kelron Transportation Management Inc.	100%
Kelron Distribution Ontario Limited	100%
Kelron Distribution (Vancouver) Ltd.	90%
Kelron Montreal Inc.	55%
Kelron Montreal (TCL) Inc.	37%

Kelron Montreal Inc. owns 68% of Kelron Montreal (TCL) Inc.

North American Distribution Logistics Inc., a wholly owned subsidiary of KCSI, has not been included in these combined financial statements as its assets and liabilities are not material.

The balances as at March 31, 2012, 2011 and April 1, 2010 and the financial results for the twelve months ended March 31, 2012, and 2011 of KCSI, which has a different year end, have been included in the combined financial statements.

The balances as at March 31, 2012 and 2011 and the financial results for the period from incorporation August 1, 2010 to March 31, 2011 and the twelve months ended March 31, 2012 of KCVL, which has a different year end, have been included in the combined financial statements.

2. **ADOPTION OF NEW ACCOUNTING FRAMEWORK**

During the year ended March 31, 2012, the Group adopted the new accounting standards for private enterprises (“ASPE”) adopted by the Canadian Institute of Chartered Accountants (“CICA”). In accordance with Section 1500 of the CICA Handbook - Part II, “First Time Adoption”, the date of transition to the new standards is April 1, 2010, and the Group has prepared and presented an opening balance sheet at the date of transition to the new standards. The opening balance sheet is the starting point for the Group’s accounting under the new standards. In its opening balance sheet, under the recommendations of Section 1500, the Group:

- (a) recognized all assets and liabilities whose recognition is required by the new standards;
- (b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- (c) reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and
- (d) applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1500, the accounting policies set out in note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively excluding cases where optional exemptions available under Section 1500 have been applied. On adoption of the new standards, the Group has elected to use the following optional exemptions available under Section 1500:

(a) **Business combinations -**

The Group has used one of the exemptions in Section 1500 and has elected not to apply retrospectively Section 1582, “Business Combinations”, to business combinations that occurred prior to April 1, 2010.

(b) **Related party transactions -**

The Group has used one of the exemptions provided in Section 1500 and has elected not to restate assets or liabilities related to transactions with related parties when the transaction occurred prior to April 1, 2010.

In preparing its opening ASPE balance sheet, the Group assessed that there were no material differences between the amounts reported on March 31, 2010 under Canadian generally accepted accounting principles (“GAAP”) and on April 1, 2010 upon transition to ASPE. As such, no reconciliation between its financial statements under GAAP and ASPE is presented in this note.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) **General -**

The Group’s accounting policies are in accordance with ASPE and are applied consistently.

(b) **Property and equipment -**

Property and equipment are stated at cost less accumulated amortization. Amortization is provided as follows:

Computer equipment	- Straight-line over two years;
Machinery	- 20% per annum on the declining balance;
Furniture and fixtures	- 20% per annum on the declining balance;
Computer software	- Straight-line over two years;
Leasehold improvements	- Straight-line over five years;
Automobiles	- 30% per annum on the declining balance.

One half of the above rates is applied in the year of acquisition.

As per Section 3063 of the CICA Handbook - Part II, "Impairment of long-lived assets", the Group tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of carrying value of the asset over its fair value and, if identified, is to be recognized as an expense in the impairment period. In the current year no events or circumstances occurred that warranted testing for impairment.

(c) **Goodwill -**

Goodwill represents the purchase price of business acquisitions over fair value of identifiable net assets acquired in such acquisitions. Goodwill is allocated as at the date of the business combination. Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicated the asset might be impaired.

(d) **Revenue recognition -**

Freight forwarding revenue is recognized when persuasive evidence of an arrangement exists, freight has been delivered, the price to the buyer is fixed or determinable and collectability is reasonably assured. Transportation management is recognized when services are rendered.

(e) **Income taxes -**

The liability method of tax allocation is used to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income and/or tax planning strategies.

(f) **Foreign currency translation -**

A portion of the Group's transactions are denominated in US dollars. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets are translated at their historic rates. Revenue and expense items are translated into US dollars at average rates of exchange, which approximate the rates in effect on the dates on which such items are recognized in income during the period.

(g) **Measurement uncertainty -**

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amount of revenue and expenses during the reported period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which such adjustments become known. Significant estimates in these financial statements include the useful lives of equipment, allowance for doubtful accounts, and the assessment of realization of future income tax balances.

(h) **Leases -**

Leases are classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks of ownership of the property to the Group are accounted for as capital leases. Capital lease obligations reflect the present value of future minimum lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

(i) **Foreign currency forward contracts -**

The Group utilizes foreign currency forward contracts to hedge its exposure to fluctuations in foreign currency exchange rates. These foreign currency forward contracts are speculative in nature and are measured at fair value with gains and losses recognized into income at the reporting date.

(j) **Investment in life insurance -**

The Group records and measures its life insurance policy at its cash surrender value.

4. **ACCOUNTS RECEIVABLE**

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Trade receivables	\$10,224,985	\$10,802,855	\$9,269,803
Allowance for doubtful accounts	(505,840)	(354,869)	(460,052)
	<u>\$ 9,719,145</u>	<u>\$10,447,986</u>	<u>\$8,809,751</u>

5. **PROPERTY AND EQUIPMENT**

Property and equipment are comprised as follows:

	March 31, 2012			March 31, 2011	April 1, 2010
	Cost	Accumulated amortization	Net book value	Net book value	Net book Value
Computer equipment	\$1,632,643	\$1,371,176	\$261,467	\$201,948	262,965
Machinery	473,382	291,706	181,676	113,459	117,460
Furniture and fixtures	362,974	261,141	101,833	124,086	106,740
Computer software	656,783	592,759	64,024	14,125	102,119
Leasehold improvements	505,983	461,564	44,419	60,670	77,010
Automobiles	17,658	8,212	9,446	11,807	14,759
	<u>\$3,649,423</u>	<u>\$2,986,558</u>	<u>\$662,865</u>	<u>\$526,095</u>	<u>681,053</u>

At April 1, 2010, the Group had net book value of \$17,674 in furniture and fixtures, and \$15,925 in machinery, under capital lease.

6. **RELATED PARTY TRANSACTIONS**

During the year the Group entered into transactions with related parties. The following are balances and transactions with related parties included in these combined financial statements:

	March 31, 2012	March 31, 2011	April 1, 2010
Balances at:			
Loan receivable from 1272387 Ontario Inc. (a)	\$ —	\$ 95,059	\$ 65,261
Loan receivable from North American Distribution Logistics Inc. (b)	274,425	369,606	232,122
Loan receivable from Kelron Distribution System (Washington) Inc. (b)	170	165	173
	<u>\$ 274,595</u>	<u>\$ 464,830</u>	<u>\$ 297,556</u>
Loan payable to 1272387 Ontario Inc. (a)	<u>\$1,190,296</u>	\$ —	\$ —
Loan payable to Kelron Distribution Systems (Chicago) Inc. (b)	195,607	206,134	213,263
Loan payable to Kelron Distribution (Midwest) Inc. (b)	50,672	49,287	51,509
Loan payable to Kelron Nevada (b)	46,022	44,764	46,782
Loan payable to 1117617 Ontario Inc. (c)	272,000	272,000	272,000
Loan payable to 1117618 Ontario Inc. (c)	272,000	272,000	272,000
Loan payable to 1272393 Ontario Inc. (a)	1,186,610	100,284	11,634
Loan payable to EKOS Technology Services Inc. (b)	96,702	96,702	96,702
	<u>\$3,309,909</u>	<u>\$1,041,171</u>	<u>\$963,890</u>
Transaction for the year:			
Management fee expense incurred with North American Distribution Logistics Inc.		2012	2011
		\$ 84,455	\$ 60,000

- (a) A 50% shareholder of KCSI. The amounts are non-interest bearing, have no specific terms of repayment. The amounts due to these related parties are secured by a general security agreement.
- (b) A company under common control. These amounts are non-interest bearing and have no fixed terms of repayment or security.
- (c) A company under common control. The amounts are non-interest bearing, have no specific terms of repayment. The amounts due to these related parties are secured by a general security agreement.

The above 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.

7. **BANK INDEBTEDNESS**

KCSI has a revolving line of credit with Royal Bank of Canada ("RBC") of \$5,000,000 of which \$2,975,565 (March 31, 2011 - \$1,245,000; April 1, 2010 - \$0) is outstanding. The outstanding line of credit balance is due on demand and bears interest at RBC's prime lending rate plus 0.60% per annum. The line of credit is secured by a general security agreement creating a first priority security interest in all present and after acquired property of KCSI. The carrying value of the security is \$12,081,590.

8. **LEASE COMMITMENTS**

The Group is committed to various operating leases for premises as follows:

For the year ending March 31, 2013	\$ 830,792
2014	588,294
2015	206,360
2016	214,230
2017	218,964
Thereafter	405,209
	<u>\$2,463,849</u>

These annual payments include payments for leased premises that have been subleased to a third party. The sublessee makes monthly payments of \$2,010 to KCSI and the sublease ends on October 30, 2013.

As well, the Group is committed to pay its share of operating costs on the premises.

9. **SHARE CAPITAL**

KCSI has an unlimited number of authorized common shares, of which 22 are issued and outstanding for \$300.

KCVL is a single-member limited liability company classified as a disregarded entity and therefore has no units issued. The sole member's contribution is \$1,000.

10. **SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>2012</u>	<u>2011</u>
Interest paid during the year	\$ 81,304	\$ 19,150
Income taxes paid during the year	\$ 154,721	\$ 208,308

11. **INCOME TAXES**

Future income tax asset consists of the following temporary differences:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Property and equipment	\$ (10,379)	\$ (15,797)	\$ (3,478)
Lease inducements	—	—	10,613
Non-capital loss carry forwards	584,386	224,480	34,195
	574,007	208,683	41,330
Less: Valuation allowance	(574,007)	—	—
	<u>\$ —</u>	<u>\$208,683</u>	<u>\$41,330</u>

The Group has net operating loss carry forwards available to be applied against future years' income. Due to the losses from operations and expected future operating results, it is not more likely than not that the future tax asset resulting from the tax losses available for carry forward will be realized through the reduction of future income tax payments, accordingly, a 100% valuation allowance has been recorded for future tax assets and current income taxes as of March 31, 2012.

These loss carry forwards expire as follows:

In the year ending March 31, 2014	\$ 2,657
2015	2,617
2026	450
2027	78
2028	761
2029	5,218
2030	175,385
2031	621,648
2032	1,401,505
	<u>\$2,210,319</u>

12. **FINANCIAL INSTRUMENTS**

The Group's financial instruments consist of cash, accounts receivable, investment in life insurance, accounts payable and accrued liabilities, government remittances payable, amounts due from and due to related parties, and accrued bonus payable.

The Group is subject to interest rate risk on its fluctuating rate debt. The Group does not use derivative financial instruments to mitigate its exposure to interest rate risk.

The Group is subject to credit risk through its accounts receivable, investment in life insurance, and amounts due from related parties. The Group, in the normal course of operations monitors the financial condition of its customers. The Group establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers, historical trends and economic conditions.

Approximately 64% (March 31, 2011 - 60%, April 1, 2010 - 59%) of accounts receivable and 44% (March 31, 2011 - 44%, April 1, 2010 - 41%) of accounts payable are subject to foreign exchange risk as they are denominated in US dollars. The Group manages its foreign exchange rate risk on its operating results through the use of forward contracts.

As at March 31, 2012, the Canadian dollar amounts to be received under foreign currency forward contracts totaled \$3,524,710. The average contractual exchange rate was 1.00 and the settlement dates of the outstanding contracts were less than one year. The exchange rate as at year end was 0.99. The fair value of these contracts was a \$33,460 gain at March 31, 2012, and was added to sales in the determination of profit (loss). The unrealized gain has been included in accounts receivable on the balance sheet.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or at reasonable cost. The Group manages liquidity risk primarily by maintaining sufficient unused capacity within its credit facilities. The unused capacity at March 31, 2012 was approximately \$2,024,000.

13. **CANADIAN AND UNITED STATES ACCOUNTING POLICY DIFFERENCES**

The combined financial statements have been prepared in accordance with ASPE (“Canadian GAAP”). Material variations in the accounting principles, practices and methods used in preparing these combined financial statements from the principles, practices and methods accepted by United States of America generally accepted accounting principles (“US GAAP”) are described and quantified below:

The impact of US GAAP on the combined balance sheet is as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Total liabilities under Canadian GAAP	<u>\$15,167,847</u>	<u>\$13,273,195</u>	<u>\$10,234,425</u>
Add: Other long-term liabilities - uncertain tax position (a) (b)	<u>1,004,143</u>	<u>1,202,592</u>	<u>870,017</u>
Total liabilities under US GAAP	<u>\$16,171,990</u>	<u>\$14,475,787</u>	<u>\$11,104,442</u>
Shareholders’ equity under Canadian GAAP	<u>\$ 3,504</u>	<u>\$ 3,159,095</u>	<u>\$ 4,087,618</u>
Add: uncertain tax positions (a) (b)	<u>(1,004,143)</u>	<u>(1,202,592)</u>	<u>(870,017)</u>
Shareholders’ equity under US GAAP	<u>\$ (1,000,639)</u>	<u>\$ 1,956,503</u>	<u>\$ 3,217,601</u>

The impact of US GAAP on the combined statement of operations is as follows:

	2012	2011	2010
Net Earnings (loss) under Canadian GAAP	<u>\$ (1,280,651)</u>	<u>\$ (263,587)</u>	<u>\$ 789,870</u>
Add: uncertain tax positions (a) (b)	<u>198,449</u>	<u>(332,575)</u>	<u>(275,777)</u>
Net earnings (loss) under US GAAP	<u>\$ (1,082,202)</u>	<u>\$ (596,162)</u>	<u>\$ 514,093</u>

There were no material differences in the presentation of the cash flow statement under US GAAP.

(a) Accounting for uncertainty in income taxes

For the purposes of US GAAP, the Group applies Accounting Standards Codification 740 “Income Taxes” (“ASC 740”). This standard prescribes a recognition and measurement model for the accounting of uncertain tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. The standard also provides guidance on de-recognition of tax benefits, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

An income tax position is recognized when it is more likely than not that it will be sustained upon examination based on its technical merits, and is measured as the largest amount that is greater than 50% likely of being realized upon ultimate settlement. Under Canadian GAAP, the Group recognizes and measures income tax positions based on the best estimate of the amount that is more likely than not of being realized.

Under ASC 740, uncertain tax positions for which the timing of their resolution is not expected in the current year should be recognized as long-term liabilities.

(b) The Group files tax returns in Canada, with the exception of KCVL. Generally, the years 2009 to 2012 remain subject to examination by tax authorities.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, inclusive of interest and penalties, is as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Opening balance	<u>\$1,202,592</u>	<u>\$ 870,017</u>	<u>\$594,240</u>
Additions based on tax positions related to the current year	<u>240,634</u>	<u>222,898</u>	<u>175,525</u>
Additions/(reductions) based on tax positions of the prior years	<u>(439,083)</u>	<u>109,677</u>	<u>100,252</u>
Ending balance	<u>\$1,004,143</u>	<u>\$1,202,592</u>	<u>\$870,017</u>

14. **SUBSEQUENT EVENTS**

- (a) On August 3, 2012, XPO Logistics Canada Inc. purchased 100% of the issued and outstanding shares of KCSI (excluding those of North American Distribution Logistics Inc.) and the assets of KCVL for cash consideration of \$8,000,000.
- (b) On August 7, 2012, the Group repaid the outstanding amount of bank indebtedness.