GROUPWORKS FINANCIAL CORP.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2010

GROUPWORKS FINANCIAL CORP.

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FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2010

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January 24, 2011

Notice to Shareholders

The attached unaudited consolidated financial statements have not been reviewed by the Company's external auditors.

GROUPWORKS FINANCIAL CORP.

UNAUDITED CONSOLIDATED BALANCE SHEET

AS AT NOVEMBER 30, 2010

	November 30, 2010	August 31, 2010
		(Audited)
ASSETS		
CURRENT ASSETS:		
Cash	**$ 913,699**	$ 1,663,557
Accounts receivable *(note 12)*	**2,290,441**	2,414,252
Commission advances *(note 12)*	**35,882**	1,646
Prepaid expenses and other sundry assets	**220,092**	248,375
	3,460,114	4,327,830
CAPITAL ASSETS *(note 3)*	**893,715**	938,268
INTANGIBLE ASSETS *(note 4)*	**6,221,034**	6,442,568
GOODWILL *(note 5)*	**13,373,247**	13,373,247
	$ 23,948,110	$ 25,081,913
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities *(note 12)*	**$ 2,660,162**	$ 3,066,601
Deferred revenue	**3,580,665**	3,168,695
Income taxes payable	**250,971**	531,559
Current portion of deferred lease inducements	**44,801**	39,236
Current portion of obligations under capital leases *(note 7)*	**13,576**	15,840
Current portion of long-term debt *(notes 12 and 14)*	**1,281,331**	1,418,095
	7,831,506	8,240,026
DEFERRED LEASE INDUCEMENTS	**135,553**	147,217
DEFERRED REVENUE	**175,793**	324,015
OBLIGATIONS UNDER CAPITAL LEASES *(note 7)*	**31,837**	33,616
LONG-TERM DEBT *(notes 12 and 14)*	**1,672,363**	2,298,252
FUTURE INCOME TAXES *(note 15)*	**1,505,214**	1,673,240
	11,352,266	12,716,366
SHAREHOLDERS' EQUITY		
Share capital *(note 9)*	**11,990,956**	11,990,956
Contributed surplus	**371,969**	371,969
Retained earnings	**232,919**	2,622
	12,595,844	12,365,547
	$ 23,948,110	$ 25,081,913

TRUST ACCOUNTS *(note 8)*
COMMITMENTS AND CONTINGENCIES *(note 16)*

ON BEHALF OF THE BOARD OF DIRECTORS

"Robert Sillcox"
Director, Chairman of the Audit Committee

"Laurie Goldberg"
Director, Chief Executive Officer

GROUPWORKS FINANCIAL CORP.

UNAUDITED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2010

		3 months ended November 30, 2010	3 months ended November 30, 2009
REVENUE			
Commissions		$ 2,699,926	$ 2,317,554
Fees *(note 12)*		2,534,975	2,578,794
		5,234,901	4,896,348
EXPENSES			
Salaries and benefits *(note 12)*		2,794,300	2,829,026
General and administrative *(note 12)*		1,122,374	1,115,045
Commissions *(note 12)*		349,963	372,510
Advertising and promotion		284,735	231,210
		4,551,372	4,547,791
INCOME BEFORE UNDERNOTED ITEMS		683,529	348,557
OTHER EXPENSES			
Interest expense *(notes 12 and 14)*		(99,124)	(140,262)
Depreciation of capital assets		(69,317)	(62,109)
Amortization of intangible assets		(221,534)	(230,683)
		(389,975)	(433,054)
INCOME BEFORE TAXES		293,554	(84,497)
INCOME TAX EXPENSE (RECOVERY)			
Current *(note 15)*		231,283	50,851
Future *(note 15)*		(168,026)	(117,148)
		63,257	(66,297)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		230,297	(18,200)
RETAINED EARNINGS - BEGINNING OF YEAR		2,622	134,167
RETAINED EARNINGS - END OF YEAR		$ 232,919	$ 115,967
Earnings per share	- Basic	$ 0.006	$ (0.001)
	- Diluted	$ 0.006	$ (0.001)
Weighted average number of shares outstanding:			
	- Basic	35,954,205	32,803,861
	- Diluted	35,954,205	32,803,861

GROUPWORKS FINANCIAL CORP.

UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2010

	Number of Common Shares		Amount		Contributed Surplus		Retained Earnings
BALANCE, AUGUST 31, 2009	**32,803,861**	$	11,940,956	**$**	**303,253**	$	134,167
Shares issued - White Willow acquisition	-		-		-		-
Shares issued - Private placement	166,666		50,000		-		-
Stock issuance costs	-		-		-		-
Stock-based compensation	-		-		68,716		-
Net earnings for the year	-		-		-		(131,545)
BALANCE, AUGUST 31, 2010	**32,970,527**		11,990,956		**371,969**		2,622
Net earnings for the year	-		-		-		230,297
BALANCE NOVEMBER 30, 2010	**32,970,527**	$	11,990,956	**$**	**371,969**	$	232,919

GROUPWORKS FINANCIAL CORP.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FIRST QUARTER ENDED NOVEMBER 30, 2010

	3 months ended November 30, 2010	3 months ended November 30, 2009
OPERATING ACTIVITIES		
Net income (loss)	$ 230,297	$ (18,200)
Items not affecting cash:		
Depreciation of capital assets	69,317	62,109
Amortization of intangible assets	221,534	230,683
Accretive interest expense	33,555	41,250
Future income taxes	(168,026)	(117,148)
	386,677	198,694
Changes in non-cash working capital:		
Accounts receivable	123,811	203,473
Commission advances	(34,236)	(63,012)
Accounts payable and accrued liabilities	(406,439)	224,406
Deferred revenue	263,748	380,112
Deferred lease inducements	(6,099)	770
Income taxes payable	(280,588)	(2,741)
Prepaid expenses and other sundry assets	28,283	(13,361)
	(311,520)	729,647
Cash flow provided by operating activities	75,157	928,341
INVESTING ACTIVITIES		
Purchase of capital assets	(24,764)	(25,871)
Cash flow provided (used) by investing activities	(24,764)	(25,871)
FINANCING ACTIVITIES		
Repayment of bank indebtedness	-	(6,539)
Repayment of long-term debt	(796,208)	(164,286)
Repayment of obligations under capital lease	(4,043)	(10,888)
Cash flow used by financing activities	(800,251)	(181,713)
INCREASE (DECREASE) IN CASH FLOW	(749,858)	720,757
Cash - beginning of year	1,663,557	2,103,988
CASH - END OF YEAR	$ 913,699	$ 2,824,745

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Groupworks Financial Corp. (the "Company") was incorporated under the Ontario Business Corporations Act on July 5, 2006. The Company delivers employee group benefit consulting, pension consulting and third party benefits administration services, as well as, recruiting services, strategic HR consulting and career management services to help companies recruit, retain and reward employees.

Effective September 1, 2008, the Company amalgamated with its wholly owned subsidiaries, Gallivan & Associates Student Networks Inc. and 1246689 Ontario Limited and continued under the name Groupworks Financial Corp. The consolidated financial statements include the accounts of Groupworks Financial Corp. and its two wholly owned Canadian subsidiaries, White Willow Benefit Consultants Incorporated (“White Willow”) and People Corporation (“People”). All material intercompany balances and transactions have been eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

<u>Revenue recognition</u>

Revenue includes fees and commissions generated from administrative, advisory and consulting services provided to clients. Revenue is recognized when it can be measured and collectability is reasonably assured.

The detailed revenue recognition policies for the significant types of revenue are as follows:

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

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

Fee revenue from administrative and consulting services are recognized on the percentage of completion basis. For fee revenue that is contingent on certain criteria being met, the revenue is not recognized until the work is completed.

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

For clients that purchase multiple administrative, advisory or consulting services from the Company, the Company recognizes revenues in accordance with CICA Handbook EIC-142 “Revenue Arrangements with Multiple Deliverables”, to determine whether each deliverable qualifies as a separate unit of accounting. For each deliverable to the client the Company establishes a separate agreement and fair value which is independent of any other deliverable, thereby ensuring that revenue is recognized on a basis that is consistent with the elements of the service contract.

Deferred revenue represents excess billings and commissions for clients where the work has not been completed.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

The most significant estimates that the Company is required to make relates to the provision for return commissions due to policy cancellation and adjustments, the assumptions for valuing customer contracts, revenue estimates for group benefit clients that have been implemented or renewed but for which the insurance carrier has yet to advance commissions, the collectability of accounts receivable, the valuation of future income tax assets and liabilities and the valuation of goodwill and intangible assets.

The estimates are based on historical trends and information, future industry factors and economic cycles, as well as management's judgment based on available information at the time. These assumptions are limited by: the availability of reliable information and comparable data, economic uncertainty and the uncertainty concerning the predictability of future events. By its very nature these estimates and assumptions are subjective and should the underlying assumptions change the estimated values could change by a material amount.

Capital assets

Capital assets are initially recorded at cost. Repairs and maintenance are charged to operations as incurred. Amortization is computed using the straight line or declining balance method over the remaining estimated useful life of the capital assets as outlined below:

Furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	straight line over the term of the lease
Computer software	4 years straight line
Software licenses	straight line over the term of the license

Goodwill

At the acquisition date, goodwill is recorded at the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Goodwill is not subject to amortization. On an annual basis or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired, management will review the carrying amount of goodwill for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by undiscounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, a second step will be conducted whereby the fair value of goodwill is determined on the same basis as a business combination. If fair value of goodwill is less than its carrying value, goodwill will be written down to its estimated fair value.

Intangible assets

Intangible assets consist of customer relationships and contracts. Customer relationships and contracts are initially recognized at fair value and then amortized on a straight line basis over its estimated useful life of ten years.

Long lived assets

Long lived assets comprise capital assets and intangible assets subject to amortization. Long lived assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long lived assets, the recoverability tests are performed using undiscounted future net cash flows of the asset. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset and recognized by way of an additional current period amortization charge.

Leases

Leases are accounted for as either operating or capital. Capital leases are those that substantially transfer the benefits and risks of ownership to the lessee. Assets acquired under capital lease are capitalized and amortized over their estimated useful lives. On the inception of the lease, obligations under capital lease are measured and recorded at the present value of future minimum lease payments. Imputed interest on the lease payments is charged against income. Leases not meeting the criteria for a capital lease are treated as operating and are recorded as an expense in the period paid or payable.

Deferred lease inducements

Lease inducements comprise rent-free periods and leasehold improvement allowances. Lease inducements are deferred and amortized to rental expense on a straight-line basis over the term of the related lease.

Future Income taxes

The asset and liability method is used to account for income taxes whereby future tax assets and liabilities are determined based on temporary differences between the carrying amount and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using the substantially enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future benefits will ultimately be realized.

Stock based compensation

The Company uses the fair value based method to account for all stock-based payments. Under this method, compensation cost is charged based on the underlying nature of services. Direct awards of stock granted to employees are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. The fair value of stock options granted is estimated using the Black-Scholes option pricing model.

Earnings (loss) per share

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

Diluted earnings per share is calculated based on the treasury stock method, by dividing income available to common shareholders, adjusted for the effects of dilutive convertible securities, by the weighted average number of common shares outstanding during the period and all additional common shares that would have been outstanding had all potential dilutive common shares been issued. This method computes the number of additional shares by assuming all dilutive options are exercised. That total number of shares is then reduced by the number of common shares assumed to be repurchased from the total of issuance proceeds, using the average market price of the Company's common shares for the period. The effect of contingently convertible instruments has been included in the computation of diluted earnings per share.

Adoption of new accounting standards

Effective September 1, 2009, the Company adopted Section 3064 “Goodwill and intangible assets”, replacing Section 3062 of the same name and Section 3450 “Research and development costs”. The new pronouncement established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill were unchanged from those that were included in the previous section 3062.

Future accounting changes

For interim and annual financial statements relating to its fiscal year commencing on or after January 1, 2011, the Company will be required to adopt CICA Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non Controlling Interests". Section 1582 replaces existing Section 1581 "Business Combinations" and Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements." The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 "Business Combinations" and International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" respectively. The impact of adopting these new standards has not yet been assessed and cannot reasonably be estimated at this time.

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (“GAAP”) will converge with International Financial Reporting Standards “(IFRS”) for interim and annual reporting periods commencing January 1, 2011. The transition date of January 1, 2011, will require the Company to provide reports based on IFRS for the fiscal year ending August 31, 2012 which will include the comparative period for August 31, 2011. Starting with the first fiscal quarter of 2012, the Company will provide unaudited financial statements in accordance with IFRS including comparatives for 2011. The Company has developed a formal action plan including the allocation of internal and external resources to ensure a smooth transition from GAAP to IFRS. During the second quarter of fiscal 2010, the Company engaged Meyers Norris Penny to complete an IFRS diagnostic. The primary objective of the diagnostic was to highlight the key differences identified between Canadian GAAP, as currently applied by the Company, and IFRS and to suggest management actions that will assist the Company in properly preparing for reporting in accordance with IFRS.

3. CAPITAL ASSETS

	Cost	Accumulated amortization	November 30, 2010 Net Book Value	August 31, 2010 Net Book Value
Furniture and fixtures	$ 650,926	$ 390,038	$ 260,888	$ 270,678
Computer equipment	755,591	493,022	262,569	270,816
Leasehold improvements	438,927	222,134	216,793	231,168
Computer software	220,575	146,831	73,744	81,329
Software licenses	109,347	29,626	79,721	84,277
	$ 2,175,366	$ 1,281,651	$ 893,715	$ 938,268

Capital assets include assets acquired through capital leases in the amount of $104,334 (2010 - $104,334). During the first quarter of fiscal 2011, amortization expense attributable to assets acquired by capital lease was $4,043 (2009 - $10,888).

4. INTANGIBLE ASSETS

	Cost	Accumulated amortization	November 30, 2010 Net Book Value	August 31, 2010 Net Book Value
Customer contracts	$ 3,000,000	$ 1,025,000	$ 1,975,000	$ 2,050,000
Customer relationships	5,861,351	1,615,317	4,246,034	4,392,568
	$ 8,861,351	$ 2,640,317	$ 6,221,034	$ 6,442,568

5. GOODWILL

	November 30, 2010 Net Book Value	August 31, 2010 Net Book Value
Goodwill, beginning of year	$ 13,373,247	$ 13,373,247
	$ 13,373,247	$ 13,373,247

When a subsidiary is acquired the purchase price paid is allocated to the assets and liabilities acquired, including identifiable intangible assets. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill. Goodwill is not amortized; however, it is tested for impairment at least annually. There were no write-downs of goodwill due to impairment during the three months ended November 30, 2010.

6. BANK INDEBTEDNESS

The Company's various banking facilities are as follows:

(a) A maximum $1,000,000 operating line of credit bearing interest at prime plus 0.25% with no specific repayment terms. As at November 30, 2010, the balance outstanding was $nil (2009 - $nil). This debt facility is secured by a general security agreement over the assets of Groupworks Financial Corp and its subsidiaries, and as of July 9, 2010, replaced a $250,000 operating line of credit that bore interest at prime plus 0.25% and had no specific repayment terms.

7. OBLIGATIONS UNDER CAPITAL LEASES

The obligations under capital leases are secured by the assets to which the capital lease relates. The leases expire by 2015 and include implicit interest rates ranging from 8.6% to 10.0%. These rates are approximately equal to what the Company could be expected to currently negotiate in the market, as such the carrying value approximates the fair value of the debt.

Future minimum lease payments required at November 30, 2010 are as follows:

Next 12 months	$	16,939
13 to 24 months		9,972
25 to 36 months		9,972
37 to 48 months		9,972
49 to 60 months		7,479
		54,334
Less: amount representing interest		(8,921)
		45,413
Less: current portion		(13,576)
	$	31,837

For the three months ended November 30, 2010, interest expense related to obligations under capital lease was $773 (2010 - $1,076).

8. INSURANCE PREMIUM LIABILITIES AND RELATED CASH OR CASH EQUIVALENTS

In its capacity as consultant and administrator, the Company collects premiums from the insured individual or group(s) and remits premiums, net of agreed deductions, such as taxes and commissions, to insurance underwriters. These are considered flow-through items for the Company held in segregated accounts and, as such, the cash and investment balances are deducted from the related liability and not included in the consolidated balance sheet of the Company.

As at November 30, 2010, the insurance premium liabilities are:

	November 30, 2010	August 31, 2010
Payable to insurance companies and insured individuals or groups	**$ 10,777,000**	$ 10,456,515
Less: related cash or cash equivalents	**10,777,000**	10,456,515
	$ -	$ -

9. SHARE CAPITAL

Authorized: Unlimited common voting shares.

	November 30, 2010		August 31, 2010	
	Number of common shares	**Amount**	**Number of common shares**	**Amount**
Opening balance, issued and outstanding	**32,970,527**	**$ 11,990,956**	**32,803,861**	**$ 11,940,956**
Issued during the year:				
Private placement of shares (i)	-	-	166,666	50,000
Total issued during the period	**-**	**-**	**166,666**	**$ 50,000**
Ending balance, issued and outstanding	**32,970,527**	**$ 11,990,956**	**32,970,527**	**$ 11,990,956**

(i) On February 25, 2010, 166,666 common shares at $0.30 per share were issued to a company insider.

10. STOCK BASED COMPENSATION

On January 4, 2008, the shareholders approved an amendment to the Stock Option Plan such that the number of shares reserved for issuance under the plan and all other of the Company's other previously established or proposed share compensation arrangements in aggregate shall not exceed 10% of the total number of issued and outstanding shares on a non-diluted basis. Options may be granted to directors, officers, employees and service providers of the Company on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan or by security regulators. Options shall not be granted for a term exceeding five years. On February 24, 2010, at the Annual General Meeting of the Shareholders, the shareholders reapproved the stock option plan.

Changes in stock options are as follows:

	November 30, 2010			August 31, 2010		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, beginning of period	2,983,678	$	0.40	2,956,954	$	0.44
Awarded	-		-	425,000		0.25
Expired	-		-	(398,276)		0.50
Outstanding, end of period	**2,983,678**	**$**	**0.40**	**2,983,678**	**$**	**0.40**
Exercisable, end of period	**1,607,169**	**$**	**0.48**	**1,607,169**	**$**	**0.48**

The following table sets forth information relating to stock options outstanding as at November 30, 2010 (no options were exercised in the period):

Expiry		Exercise price	Number outstanding	Weighted average remaining contractual life (in years)		Weighted average exercise price	Number exercisable		Weighted average exercise price
Nov 23, 2011	$	0.60	774,000	0.98	$	0.60	774,000	$	0.60
Sep 17, 2012		0.67	75,000	1.80		0.67	75,000		0.67
Feb 27, 2013		0.38	75,000	2.25		0.38	75,000		0.38
Apr 21, 2014		0.34	1,634,678	3.39		0.34	683,169		0.34
March 9, 2015		0.25	425,000	4.27		0.25	-		0.25
			2,983,678	**2.82**	**$**	**0.40**	**1,607,169**	**$**	**0.48**

The Company applies the fair value method using the Black-Scholes option pricing model to account for stock options granted to employees, directors and service providers of the Company.

11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide opportunities for growth to shareholders and benefits for other stakeholders and to maintain financial flexibility in, or to take advantage of, organic growth and new acquisition opportunities as they arise.

In the management of capital, the Company includes cash, bank financing, vendor-take-back debt and shareholders' equity in the definition of capital. The Company manages its capital structure and can adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares, issue new debt, renegotiate vendor-take-back debt or issue new debt to replace existing debt with different characteristics. The Company's acquisition strategy includes the issuance of debt and shares. The Company uses its operating line of credit during the year to finance cash flows related to seasonal changes in non-cash working capital items.

12. RELATED PARTY TRANSACTIONS

The Company engages in transactions with directors and officers or shareholders of the Company. All the transactions are in the normal course of operations and are measured at the exchanged amount, which is the consideration agreed to by the parties. The related party transactions and balances are as follows:

	3 months ended	
	November 30, 2010	**November 30, 2009**
Revenue (i)	$ -	$ 24,125
Expenses		
Salaries and benefits (ii)	236,875	341,441
Commissions (iii)	-	62,630
General and administrative (iv)	13,750	10,421
Interest expense (v)	42,561	68,037

	November 30, 2010	**August 31, 2010**
Accounts payable and accrued liabilities (vi)	$ 91,250	$ 305,575
Current portion of long-term debt (vii)	461,530	906,577
Long-term debt (vii)	1,363,332	1,484,240

(i) Fee revenue is earned from a client for which the Company provides administration services. The client has two directors and shareholders who are also former directors and current shareholders of the Company.

(ii) Salaries, bonuses and benefits paid to senior management some of which are also directors of the Company.

(iii) Commission payments totalling $nil for the three months ended November 30, 2010 (2009 – $62,630) to two former Directors of the Company who are also employees. The commissions are strictly a component of negotiated employment agreements which entitle the two former Directors to a percentage of new business that they are able to acquire.

(iv) Consulting fees are paid to a vendor that provides technology and administrative services to the Company. The vendor has two directors and shareholders who are also former directors and current shareholders of the Company. Directors' fees totalling $13,750 for the three months ended November 30, 2010 (2009 – $10,421) were paid or accrued to certain directors of the Company.

(v) Interest on vendor-take-back debt related to prior acquisitions was paid or accrued totalling $42,561 for the three months ended November 30, 2010 (2009 – $68,037) to certain officers and directors of the Company.

(vi) Accrued interest on the vendor-take-back debt amounting to $nil (August 31, 2010 – $2,059), Directors fees of $24,500 (August 31, 2010 - $15,250) and bonus of $61,875 (August 31, 2010 - $288,266) is payable to certain members of management; and consulting fees of $nil (August 31, 2010 - $nil) payable to a vendor that has two directors and shareholders who are also a director, former director and shareholders of the Company.

(vii) Represents vendor-take-back debt on acquisitions in prior years and promissory notes payable (note 15 (a), (d), (e), (g) and (h)) owed to certain officers and directors of the Company.

13. FINANCIAL INSTRUMENTS

Fair Value

The Company's carrying value of cash, accounts receivable, commission advances, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

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

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at November 30, 2010:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Commission advances	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Obligations under capital leases	Other financial liabilities
Long-term debt	Other financial liabilities

Carrying value and fair value of financial assets and liabilities are summarized as follows:

	November 30, 2010		August 31, 2010	
Classification	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Held-for-trading	$ 913,699	$ 913,699	$ 1,663,557	$ 1,663,557
Loans and receivables	$ 2,326,323	$ 2,326,323	$ 2,415,898	$ 2,415,898
Other financial liabilities	$ 5,659,269	$ 5,659,269	$ 6,832,353	$ 6,832,353

Amendments to CICA 3862 - Financial Instruments Disclosures establish a fair value hierarchy requiring the Company to maximize the use of observable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. CICA 3862 describes three levels of inputs that may be used to measure fair value:

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

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

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

All held for trading financial instruments are measured at fair value using Level 1 inputs.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's long term debt (vendor-take-back debt) bears interest at fixed rates. The carrying value of the long term debt approximates its fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms. The Company's credit facilities bear variable interest rates, but the facilities are not material and are not currently being utilized.

Reasonable fluctuations in market interest rates would not have a material impact on the Company's net income and comprehensive income.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company has experienced few bad debt write offs and accordingly its allowance at November 30, 2010 is $5,799 (2010 - $18,485).

Pursuant to their respective payment terms, consolidated accounts receivable are aged as follows as at November 30, 2010:

	November 30, 2010	**August 31, 2010**
Under 31 days past due	$ 2,189,199	$ 2,241,745
31-60 days past due	69,153	107,283
61-90 days past due	(5,086)	18,792
Over 91 days past due	42,974	64,917
	2,296,240	2,432,737
Allowance for doubtful accounts	(5,799)	(18,485)
Total	$ 2,290,441	$ 2,414,252

Liquidity Risk

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

The maturity dates of the Company's financial liabilities as at November 30, 2010 are as follows:

	Carrying amount	Contractual cash flows	Maturing in the next 12 months	Maturing in 13 to 36 months	Maturing in 37 to 60 months
Accounts payable and accrued liabilities	$ 2,660,162	$ 2,660,162	$ 2,660,162	$ -	$ -
Obligations under capital leases	45,413	45,413	13,576	15,697	16,140
Long-term debt	2,953,694	2,953,694	1,281,331	1,535,979	136,384
Deferred lease inducements	180,354	180,354	44,801	120,457	15,096
Interest payments on long-term debt	1,851	10,895	8,230	2,665	-
Total	$ 5,841,474	$ 5,850,518	$ 4,008,100	$ 1,674,798	$ 167,620

14. LONG-TERM DEBT

	November 30, 2010	August 31, 2010
(a) A vendor-take-back loan bearing interest of 7% per annum, with one remaining instalment. The loan matured on July 5, 2009. The loan is secured by the assets of the Company and is subordinated to the bank indebtedness and the vendor-take-back loan (a) above. The loan was refinanced on August 31, 2009 to extend the maturity date to October 31, 2010. Effective July 5, 2009, the balance of the loan bears interest at 8% per annum, payable monthly. The loan was repaid in full and terminated in September 2010.	$ -	$ 587,203
(b) A loan bearing interest of 7% per annum, repayable in quarterly instalments of principal and interest of $21,422. The loan matures on September 30, 2012.	158,635	176,960
(c) A vendor-take-back loan bearing no interest per annum, repayable in three equal instalments of $143,333. During the period the Company paid $163,333.The loan matures on January 1, 2012 and is secured by the assets of the Company and is subordinated to the bank indebtedness and the vendor-take-back loans (a) and (b) above. The loan has been discounted by 8% to arrive at the fair value which is the present value of the future cash flows.	274,345	269,233
(d) A group of vendor-take-back loans bearing no interest per annum, repayable in monthly instalments. The loans mature on dates ranging from August 1, 2010 to February 1, 2013. The loans have been discounted by 8% to arrive at the fair value which is the present value of the future cash flows.	56,005	66,821
(e) A group of vendor-take-back loans bearing no interest per annum, repayable in monthly instalments. The loans mature February 1, 2014 and are secured by the assets of the Company and are subordinated to the bank indebtedness and the vendor-take-back loans (a), (b) and (d) above. The loans have been discounted by 8% to arrive at the fair value which is the present value of the future cash flows.	1,351,001	1,413,742
(f) A loan bearing interest and fees tied to a percentage of claims paid by the Company. The percentage applicable for a month depends on the level of the loan outstanding as a percentage of the annualized claims paid as set out in a table. On May 31, 2010, the parties to the loan agreed to extend the principal repayment terms to September 30, 2011.	450,000	450,000
(g) A group of vendor-take-back loans assumed on the acquisition of People Corporation bearing interest of 12% per annum, repayable in monthly instalments of principal and interest of $16,133. The loans mature on October 30, 2013 and are secured by the assets of the Company.	473,861	507,313
(h) A group of vendor-take-back loans assumed on the acquisition of People Corporation, bearing no interest per annum, repayable in monthly instalments. The loans mature on April 30, 2012. The loan has been discounted by 8% to arrive at the fair value which is the present value of the future cash flows.	182,274	212,356
(i) A loan bearing interest of 4% per annum, repayable in monthly instalments of principal and interest of $8,896. The loan was repaid in full and terminated in October 2010.	-	17,703
(j) A loan bearing interest of 7% per annum, repayable in monthly instalments of principal and interest of $2,554. The loan matures on February 1, 2011	7,573	15,016
	2,953,694	3,716,347
Less current portion	(1,281,331)	(1,418,095)
	$ 1,672,363	$ 2,298,252

Principal repayment terms are approximately:	
Next 12 months	$ 1,281,331
13 to 24 months	861,766
25 to 36 months	674,213
37 to 48 months	136,384
	$ 2,953,694

Interest expense in the period consists of the following:

	3 months ended November 30, 2010	3 months ended November 30, 2009
Accretive interest on discounted vendor-take-back loans	$ 33,555	$ 41,250
Vendor-take-back loan interest	1,931	23,712
Interest on long-term debt	75,062	71,665
Bank indebtedness	2,139	3,258
Interest income	(13,563)	377
	$ 99,124	$ 140,262

15. INCOME TAXES

	3 months ended November 30, 2010	3 months ended November 30, 2009
Income (loss) subject to income taxes	$ 293,554	$ (84,497)
Statutory tax rate	28.22 %	32.33 %
Income taxes (recovery) at statutory tax rates	82,849	(27,318)
Adjustments to income taxes		
Non-deductible meals and entertainment	8,172	8,254
Non-deductible interest	9,470	13,336
Realization of losses	15,208	(388)
Change in estimated timing of realization of temporary differences	215,735	99,473
Change in valuation allowance	(37,147)	(88,643)
Other	(231,030)	(71,011)
Total income taxes (recovery), as reported	$ 63,257	$ (66,297)
Current taxes	$ 231,283	$ 50,851
Future taxes	(168,026)	(117,148)
	$ 63,257	$ (66,297)

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

	November 30, 2010	August 31, 2010
Future income tax assets		
Equity issue costs	**$ 69,154**	$ 79,967
Lease inducements	**48,256**	49,887
Loss carry forwards	**169,403**	104,280
Valuation allowance	**(67,133)**	(104,280)
	$ 219,680	$ 129,854
Future income tax liabilities		
Asset basis differences	**$ 72,437**	$ 92,174
Amortization - customer relationships and contracts	**1,652,457**	1,710,920
	$ 1,724,894	$ 1,803,094
Net future income tax liability	**$ 1,505,214**	$ 1,673,240

16. COMMITMENTS AND CONTINGENCIES

(a) The Company leases premises under long term leases that expire on December 31, 2010 and April 30, 2015. The Company has long term leases related to various office premises and office equipment. Future minimum lease payments as at November 30, 2010 are as follows:

Next 12 months	$	692,827
13 to 24 months		543,979
25 to 36 months		217,185
37 to 48 months		175,972
49 to 60 months		118,883
	$	1,748,846

(b) In the ordinary course of business, the Company is involved in litigation and other claims. Management reviews all of the relevant facts for each claim and applies judgment in evaluating the likelihood and, if applicable, the amount of any potential loss. Where it is considered likely for a material exposure to result and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. The Company does not provide for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or for claims where the amount of the loss cannot be reasonably estimated.

The Company, together with other parties, is a defendant in a legal action. Management's view is that the claim is entirely without merit and that it is unlikely that any payment for damages will be awarded and accordingly no accrual has been made in these financial statements for any loss resulting from these allegations.

17. CASH FLOW SUPPLEMENTARY INFORMATION

	3 months ended	
	November 30, 2010	**November 30, 2009**
Interest paid	$ 22,340	$ 41,330
Income taxes paid	3,326	21,769

18. PENSION PLAN

Certain employees of the Company's Buffett Taylor Division participate in a defined contribution pension plan. Contributions to the plan by the Company totalled $7,212 for the three months ended November 30, 2010 (2009 – $6,822). The amount is included in the salaries, wages and benefits expense in these financial statements.