



UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF  
**GROUPWORKS FINANCIAL CORP.**  
FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

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July 26, 2010

**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**  
**AT MAY 31, 2010**

	May 31, 2010	August 31, 2009
	(Unaudited)	(Audited)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 1,491,304	\$ 2,103,988
Accounts receivable	1,723,772	2,142,489
Commission advances <i>(note 12)</i>	145,880	60,976
Prepaid expenses and other sundry assets	306,980	182,232
	<b>3,667,936</b>	4,489,685
CAPITAL ASSETS <i>(note 3)</i>	763,929	887,794
FUTURE INCOME TAXES <i>(note 15)</i>	286,316	184,697
INTANGIBLE ASSETS <i>(note 4)</i>	6,664,101	7,631,842
GOODWILL <i>(notes 2 and 5)</i>	13,863,855	13,560,713
	<b>\$ 25,246,137</b>	<b>\$ 26,754,731</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Bank indebtedness <i>(note 6)</i>	\$ -	\$ 42,072
Accounts payable and accrued liabilities <i>(note 12)</i>	2,943,433	3,137,550
Deferred revenue	2,742,155	3,259,145
Income taxes payable	227,816	57,836
Current portion of deferred lease inducements	33,671	15,240
Current portion of obligations under capital leases <i>(note 7)</i>	12,697	34,000
Current portion of long-term debt <i>(note 14)</i>	1,629,357	1,169,566
	<b>7,589,129</b>	7,715,409
DEFERRED LEASE INDUCEMENTS	158,881	186,451
DEFERRED REVENUE	277,824	293,965
OBLIGATIONS UNDER CAPITAL LEASES <i>(note 7)</i>	2,284	8,806
LONG-TERM DEBT <i>(note 14)</i>	2,470,303	3,603,880
FUTURE INCOME TAXES <i>(note 15)</i>	2,226,362	2,502,512
	<b>12,724,783</b>	14,311,023
SHAREHOLDERS' EQUITY		
Share capital <i>(note 9)</i>	11,979,567	11,968,761
Contributed surplus	371,969	303,253
Retained earnings	169,818	171,694
	<b>12,521,354</b>	12,443,708
	<b>\$ 25,246,137</b>	<b>\$ 26,754,731</b>

TRUST ACCOUNTS *(note 8)*  
 COMMITMENTS AND CONTINGENCIES *(note 16)*  
 SUBSEQUENT EVENT *(note 19)*

**ON BEHALF OF THE BOARD OF DIRECTORS**

"Robert Sillcox"  
 Robert Sillcox, Chairman of the Audit Committee

"Laurie Goldberg"  
 Laurie Goldberg, CEO and Director

## GROUPWORKS FINANCIAL CORP.

**UNAUDITED CONSOLIDATED STATEMENT OF NET INCOME (LOSS), COMPREHENSIVE  
INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)  
FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
<b>REVENUE</b>				
Commissions	\$ 2,266,013	\$ 7,171,869	\$ 2,163,464	\$ 4,544,902
Fees	2,634,723	7,619,506	2,589,579	3,908,458
Other	1,035	6,127	857	2,881
	4,901,771	14,797,502	4,753,900	8,456,241
<b>EXPENSES</b>				
Salaries and benefits (note 12)	2,798,065	8,623,575	3,285,489	5,050,164
General and administrative (note 12)	1,050,897	3,200,571	1,054,960	1,602,597
Commissions (note 12)	350,481	1,039,942	319,821	404,118
Advertising and promotion	289,056	793,534	328,665	551,525
Stock-based compensation (note 10)	68,716	68,716	20,943	32,848
	4,557,215	13,726,338	5,009,878	7,641,252
<b>INCOME (LOSS) BEFORE UNDERNOTED ITEMS</b>				
	344,556	1,071,164	(255,978)	814,989
<b>OTHER EXPENSES</b>				
Interest expense (note 14)	(135,942)	(413,344)	(141,154)	(197,946)
Depreciation of capital assets (note 3)	(64,953)	(190,215)	(64,005)	(100,159)
Amortization of intangible assets (note 4)	(221,533)	(664,598)	(230,623)	(515,747)
Recovery of development costs	-	-	15,320	15,320
Gain on settlement of debt	-	-	288,986	288,986
	(422,428)	(1,268,157)	(131,476)	(509,546)
<b>INCOME (LOSS) BEFORE TAXES</b>				
	(77,872)	(196,993)	(387,454)	305,443
<b>INCOME TAXES (RECOVERED)</b>				
Current (note 15)	136,092	221,848	(65,030)	310,383
Future (note 15)	(168,296)	(416,965)	(69,171)	(317,280)
	(32,204)	(195,117)	(134,201)	(6,897)
<b>NET INCOME AND COMPREHENSIVE INCOME (LOSS)</b>				
	(45,668)	(1,876)	(253,253)	312,340
<b>RETAINED EARNINGS (DEFICIT) - BEGINNING OF PERIOD</b>				
	215,486	171,694	274,607	(290,986)
<b>RETAINED EARNINGS - END OF PERIOD</b>				
	\$ 169,818	\$ 169,818	\$ 21,354	\$ 21,354
<b>Earnings per share</b>				
- Basic	\$ (0.001)	\$ -	\$ (0.008)	\$ 0.015
- Diluted	\$ (0.001)	\$ -	\$ (0.007)	\$ 0.012
<b>Weighted average number of shares outstanding:</b>				
- Basic	32,970,527	32,862,469	32,803,861	21,506,986
- Diluted	35,954,205	35,846,147	38,493,532	26,896,730

## GROUPWORKS FINANCIAL CORP.

**UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

	<b>Number of Common Shares</b>	<b>Amount</b>	<b>Contributed Surplus</b>	<b>Retained Earnings/ (Deficit)</b>
<b>BALANCE, AUGUST 31, 2008</b>	<b>15,831,931</b>	\$ 7,785,835	\$ 266,795	\$ (290,986)
Shares issued - White Willow acquisition	1,140,000	285,000	-	-
Shares issued - People Corporation	15,831,930	3,957,983	-	-
Stock issuance costs	-	(60,057)	-	-
Stock-based compensation ( <i>note 10</i> )	-	-	36,458	-
Net earnings for the year	-	-	-	462,680
<b>BALANCE, AUGUST 31, 2009</b>	<b>32,803,861</b>	11,968,761	<b>303,253</b>	171,694
Stock issuance costs	-	(39,194)	-	-
Shares issued - Private placement	<b>166,666</b>	50,000	-	-
Stock-based compensation ( <i>note 10</i> )	-	-	<b>68,716</b>	-
Net earnings for the year	-	-	-	(1,876)
<b>BALANCE MAY 31, 2010</b>	<b>32,970,527</b>	\$ 11,979,567	\$ 371,969	\$ 169,818

## GROUPWORKS FINANCIAL CORP.

**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
<b>OPERATING ACTIVITIES</b>				
Net income	\$ (45,668)	\$ (1,876)	\$ (253,253)	\$ 312,340
Items not affecting cash:				
Depreciation of capital assets	64,953	190,215	64,005	100,159
Amortization of intangible assets	221,533	664,598	230,623	515,747
Accretive interest expense	36,753	116,359	46,437	69,387
Future income taxes	(168,296)	(416,965)	(69,171)	(317,280)
Gain on settlement of debt	-	-	(288,986)	(288,986)
Stock-based compensation	68,716	68,716	20,943	32,848
	177,991	621,047	(249,402)	424,215
Changes in non-cash working capital:				
Accounts receivable	38,737	418,717	227,082	101,383
Commission advances	(37,363)	(84,904)	(56,983)	(204,608)
Accounts payable and accrued liabilities	(26,787)	(194,117)	549,351	568,327
Deferred revenue	(434,752)	(533,131)	38,539	(56,209)
Deferred lease inducements	(6,098)	(9,139)	(2,664)	23,977
Income taxes payable	192,225	169,980	(401,225)	(407,971)
Prepaid expenses and other sundry assets	(74,415)	(124,748)	59,407	(78,116)
	(348,453)	(357,342)	413,507	(53,217)
Cash flow provided (used) by operating activities	(170,462)	263,705	164,105	370,998
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(17,003)	(66,349)	(59,528)	(73,125)
Proceeds from sale of capital assets	-	-	-	402,588
Business acquisitions	-	-	-	(547,491)
Cash acquired on business acquisitions	-	-	2,689,292	2,848,173
Business acquisition fees	-	-	(130,920)	(167,444)
Cash flow (used) by investing activities	(17,003)	(66,349)	2,498,844	2,462,701
<b>FINANCING ACTIVITIES</b>				
Repayment of bank indebtedness	-	(42,072)	(6,116)	(11,262)
Proceeds from long-term debt	24,738	103,471	-	300,000
Repayment of long-term debt	(311,317)	(893,613)	(481,549)	(1,305,040)
Repayment of obligations under capital lease	(8,023)	(27,826)	(10,289)	(10,289)
Stock issuance costs	-	-	(26,030)	(32,251)
Private placement of shares	-	50,000	-	-
Cash flow provided (used) by financing activities	(294,602)	(810,040)	(523,984)	(1,058,842)
<b>DECREASE IN CASH FLOW</b>	<b>(482,067)</b>	<b>(612,684)</b>	<b>2,138,965</b>	<b>1,774,857</b>
Cash - beginning of period	1,973,371	2,103,988	290,624	654,732
<b>CASH - END OF PERIOD</b>	<b>\$ 1,491,304</b>	<b>\$ 1,491,304</b>	<b>\$ 2,429,589</b>	<b>\$ 2,429,589</b>

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

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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:

Revenue recognition

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 by management 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 by management based on historical data.

Fee revenue from administrative and consulting services are recognized on the percentage of completion basis of accounting. 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 account. For each deliverable to the client the Company establishes a separate agreement 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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**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 and goodwill, 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 and the valuation of future income tax assets and liabilities.

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 diminishing balance method over the remaining estimated useful life of the capital assets as outlined below:

Building	4% diminishing balance
Furniture and fixtures	20% diminishing balance
Computer equipment	30% diminishing 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

For capital asset additions during the fiscal year, amortization is calculated at 50% of the original computation.

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. 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 valued based on the discounted after tax cash flows taking into consideration the operating costs to service the clients and client terminations. Customer relationships and contracts are initially recognized at fair value and then amortized on a straight line basis over its useful life of ten years.

The Company adopted Section 3064 "Goodwill and intangible assets" which resulted in \$303,142 of deferred acquisition costs that were previously included as intangible assets being reclassified to Goodwill.



**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

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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 amortized over their estimated useful lives. Obligations under capital lease are measured at the present value of future minimum lease payments. Imputed interest on the lease payments is charged against income. Leases not meeting the capital criteria 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 directly to earnings. 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, taking into account amounts that are believed to approximate the volatility of the trading price of the Company's stock and the risk-free interest rate, as determined at the grant date.

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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**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. The adoption of Section 3064 resulted in deferred acquisition costs that were previously included as intangible assets being reclassified to Goodwill. The adoption of Section 3064 was retroactively applied to September 1, 2009 and resulted in a reversal of \$9,150 in amortization of intangible assets and the corresponding adjustment in future tax

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		May 31, 2010 Net Book Value		August 31, 2009 Net Book Value	
Furniture and fixtures	\$	602,067	\$	361,941	\$	240,126	\$	286,227
Computer equipment		703,624		440,816		262,808		285,669
Leasehold improvements		279,632		190,453		89,179		124,518
Computer software		208,924		125,941		82,983		116,081
Software licenses		109,347		20,514		88,833		75,299
	\$	1,903,594	\$	1,139,665	\$	763,929	\$	887,794

Cost includes the fair value of the capital assets acquired as part of the acquisitions and additions, net of dispositions made during the period.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

## 4. INTANGIBLE ASSETS

	Cost	Accumulated amortization	May 31, 2010 Net Book Value	August 31, 2009 Net Book Value
Customer contracts	\$ 3,000,000	\$ 875,000	\$ 2,125,000	\$ 2,350,000
Customer relationships	5,861,351	1,322,250	4,539,101	4,978,700
Acquisition costs	-	-	-	303,142
	\$ 8,861,351	\$ 2,197,250	\$ 6,664,101	\$ 7,631,842

Cost represents fair value of intangible assets acquired with each entity purchased. Amortization of intangible assets is not deductible for tax purposes. Based on the Company's review of CICA Handbook Section 3064, previously disclosed acquisition costs have been reclassified to Goodwill.

## 5. GOODWILL

	May 31, 2010 Net Book Value	August 31, 2009 Net Book Value
Goodwill, beginning of year	\$ 13,560,713	\$ 6,912,501
Acquisitions	-	6,648,212
Reclassification due to adoption of section 3064	303,142	-
	\$ 13,863,855	\$ 13,560,713

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 nine months ended May 31, 2010.

## 6. BANK INDEBTEDNESS

The Company's various banking facilities are as follows:

- (a) A maximum \$250,000 operating line of credit which bears interest at prime plus 1.05% with no specific payment terms. As at February 28, 2010 the balance outstanding is \$nil (2009 - \$nil). The debt facility is secured by a general security agreement over the assets of HealthSourcePlus, Inc, a subsidiary of People Corporation. This operating line was replaced on July 9, 2010. See subsequent events for additional information.
- (b) A demand loan bearing interest at prime plus 0.75% and secured by a general security agreement. The loan required monthly blended installments of principal and interest of \$2,280 amortized over 36 months. The maturity date of the loan was April 1, 2011, and was classified as current as it was due on demand. The loan was repaid in full and terminated in December 2009.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010****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 2011 and include implicit interest rates ranging from 8% to 14.5%. 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 May 31, 2010 are as follows:

Next 12 months	\$	13,462
13 to 24 months		2,323
		<u>15,785</u>
Less: amount representing interest		<u>(804)</u>
		14,981
Less: current portion		<u>12,697</u>
	\$	<u>2,284</u>

For the nine months ended May 31, 2010, interest expense related to all obligations under capital lease was \$2,466 (2009 - \$1,700).

**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 May 31, 2010, the insurance premium liabilities are:

	<b>May 31, 2010</b>	<b>August 31, 2009</b>
Payable to insurance companies and insured individuals or groups	\$ <b>9,158,348</b>	\$ 10,764,477
Less: related cash or cash equivalents	<b>9,158,348</b>	10,764,477
	<u>\$ -</u>	<u>\$ -</u>

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

## 9. SHARE CAPITAL

Authorized: Unlimited common voting shares.

	May 31, 2010			August 31, 2009	
	Number of common shares	Price/Average Price	Amount	Number of common shares	Amount
<b>Opening balance, issued and outstanding</b>	<b>32,803,861</b>	<b>\$ 0.36</b>	<b>\$ 11,968,761</b>	<b>15,831,931</b>	<b>\$ 7,785,835</b>
Issued during the year:					
Acquisition of White Willow (i)	-	-	-	1,140,000	285,000
Acquisition of People Corporation (ii)	-	-	-	15,831,930	3,957,983
Private placement of shares (iii)	166,666	\$ 0.30	50,000	-	-
<b>Total issued during the period</b>	<b>166,666</b>	<b>0.30</b>	<b>50,000</b>	<b>16,971,930</b>	<b>\$ 4,242,983</b>
Less: stock issuance costs, net of future taxes	-	-	(39,194)	-	(60,057)
<b>Ending balance, issued and outstanding</b>	<b>32,970,527</b>	<b>\$ 0.36</b>	<b>\$ 11,979,567</b>	<b>32,803,861</b>	<b>\$ 11,968,761</b>

- (i) On January 30, 2009, 1,140,000 common shares at \$0.25 per share were issued as partial consideration on the acquisition of White Willow.
- (ii) On March 2, 2009, 15,831,930 common shares at \$0.25 per share were issued as partial consideration on the acquisition of People Corporation.
- (iii) 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, at the fiscal 2007 Annual General Meeting of the Shareholders, 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:

	May 31, 2010		August 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of period	2,956,954	\$ 0.44	1,254,000	\$ 0.59
Awarded	425,000	0.25	1,817,934	0.34
Expired	(398,276)	0.50	(114,980)	0.52
<b>Outstanding, end of period</b>	<b>2,983,678</b>	<b>\$ 0.40</b>	<b>2,956,954</b>	<b>\$ 0.44</b>
<b>Excercisable, end of period</b>	<b>1,512,276</b>	<b>\$ 0.49</b>	<b>1,303,943</b>	<b>\$ 0.57</b>

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

The following table sets forth information relating to stock options outstanding as at May 31, 2010 (no options were exercised in the period):

Expiry	Range of exercise prices	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	1.48	\$ 0.60	774,000	\$ 0.60
Sep 17, 2012	0.67	75,000	2.30	0.67	75,000	0.67
Feb 27, 2013	0.38	75,000	2.75	0.38	75,000	0.38
Apr 21, 2014	0.34	1,634,678	3.89	0.34	588,276	0.34
March 9, 2015	0.25	425,000	4.78	0.25	-	0.25
		<b>2,983,678</b>	<b>3.32</b>	<b>\$ 0.40</b>	<b>1,512,276</b>	<b>\$ 0.49</b>

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

During the quarter ended May 31, 2010 outlined below, the Company had activity 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:

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
Revenue (i)	\$ -	\$ -	\$ 30,428	\$ 65,171
Expenses				
Salaries, wages and benefits (ii)	281,875	905,192	354,962	491,873
Commissions (iii)	-	-	18,576	123,888
General and administrative (iv)	10,750	38,750	21,209	27,296
Interest expense (v)	58,680	181,627	68,934	113,048

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

	May 31, 2010	August 31, 2009
Accounts receivable (i)	\$ -	\$ 13,783
Commission advances (iii)	-	30,488
Accounts payable and accrued liabilities (vi)	242,001	258,465
Current portion of long-term debt (vii)	999,833	332,186
Long-term debt (vii)	1,602,397	2,698,896

- (i) Consulting 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 totaling \$nil and \$nil for the three months ended May 31, 2010 and nine months ended May 31, 2010; respectively, (2009 – \$47,068 and \$233,258) to two former Directors of the Company who are also employees, of which \$nil (August 31, 2009 – \$30,488) is owed to the Company and included in commission advances in the financial statements. 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 totaling \$10,750 and \$38,750 for the three months ended May 31, 2010 and nine months ended May 31, 2010; respectively, (2009 – \$18,197 and \$18,197) 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 totaling \$58,680 and \$181,627 for the three months ended May 31, 2010 and nine months ended May 31, 2010; respectively, (2009 – \$68,934 and \$113,048 ) to certain officers and directors of the Company.
- (vi) Accrued interest on the vendor-take-back loan amounting to \$2,059 (August 31, 2009 – \$1,647), Directors fees of \$32,250 (August 31, 2009 - \$22,000) and \$207,692 (August 31, 2009 - \$233,205) bonus is payable to certain members of management; and \$nil (August 31, 2009 - \$1,613) of consulting fees 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 and promissory notes payable (note 15 (a), (b), (e), (f), (h) and (i)) 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 May 31, 2010:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Commission advances	Loans and receivables

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

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:

Classification	May 31, 2010		August 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Held-for-trading	\$ 1,491,304	\$ 1,491,304	\$ 2,103,988	\$ 2,103,988
Loans and receivables	\$ 1,869,652	\$ 1,869,652	\$ 2,203,465	\$ 2,203,465
Other financial liabilities	\$ 7,058,074	\$ 7,058,074	\$ 7,995,874	\$ 7,995,874

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. Over the past 27 months, the Company has experienced few bad debt write offs and accordingly its allowance at May 31, 2010 is \$13,194. It is management's opinion that the Company is not exposed to price and currency risk arising from these financial instruments.

Pursuant to their respective payment terms, consolidated accounts receivable are aged as follows as at May 31, 2010:

In line with payment terms	\$ 1,214,532
Under 31 days past due	338,469
31-60 days past due	70,361
61-90 days past due	73,732
Over 91 days past due	39,872
	1,736,966
Allowance for doubtful accounts	(13,194)
<b>Total</b>	<b>\$ 1,723,772</b>



**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**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 May 31, 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	\$ 2,943,433	\$ 2,943,433	\$ 2,943,433	\$ -	\$ -
Interest payable on VTB debt	-	29,573	29,573	-	-
Bank indebtedness	-	-	-	-	-
Obligations under capital leases	14,981	14,981	12,697	2,284	-
Long-term debt	4,099,660	4,099,660	1,629,357	1,990,971	479,332
Deferred lease inducements	192,552	192,552	33,671	138,457	20,424
Interest payments on long- term debt	2,275	16,979	10,872	6,107	-
<b>Total</b>	<b>\$ 7,252,901</b>	<b>\$ 7,297,178</b>	<b>\$ 4,659,603</b>	<b>\$ 2,137,819</b>	<b>\$ 499,756</b>

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

## 14. LONG-TERM DEBT

	May 31, 2010	August 31, 2009
(a) A vendor-take-back loan originally bearing no interest per annum, with one remaining installment. The loan matured on September 1, 2008 and is secured by the assets of the Company and is subordinated to the bank indebtedness. The loan was refinanced on August 31, 2009 and the balance bears interest at 12% per annum (effective September 2008), payable monthly and matures on October 31, 2010. This amount is due to shareholders and employees of the Company.	\$ 200,000	\$ 400,000
(b) A vendor-take-back loan bearing interest of 7% per annum, with one remaining installment. 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. This amount is due to shareholders of the Company.	587,203	587,203
(c) A loan bearing interest of 7% per annum, repayable in quarterly installments of principal and interest of \$21,422. The loan matures on September 30, 2012.	194,971	247,165
(d) A vendor-take-back loan bearing no interest per annum, repayable in three equal installments 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.	264,121	389,085
(e) A group of vendor-take-back loans bearing no interest per annum, repayable in monthly installments. 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.	80,129	118,501
(f) A group of vendor-take-back loans bearing no interest per annum, repayable in monthly installments. 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.	1,475,246	1,623,060
(g) 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
(h) A group of vendor-take-back loans assumed on the acquisition of People Corporation bearing interest of 12% per annum, repayable in monthly installments of principal and interest of \$16,133. The loans mature on October 30, 2013 and are secured by the assets of the Company.	539,780	631,568
(i) A group of vendor-take-back loans assumed on the acquisition of People Corporation, bearing no interest per annum, repayable in monthly installments. 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.	241,845	326,864
(j) A loan bearing interest of 4% per annum, repayable in monthly installments of principal and interest of \$8,896. The loan matures on October 1, 2010	44,035	-
(k) A loan bearing interest of 6.988% per annum, repayable in monthly installments of principal and interest of \$2,554. The loan matures on February 1, 2011	22,330	-
	4,099,660	4,773,446
Less current portion	1,629,357	1,169,566
	\$ 2,470,303	\$ 3,603,880

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

Principal repayment terms are approximately:

Next 12 months	\$ 1,629,357
13 to 24 months	1,313,069
25 to 36 months	677,902
37 to 48 months	479,332
	\$ 4,099,660

Interest expense in the period consists of the following:

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
Accretive interest on discounted vendor take-back loans	\$ 36,753	\$ 116,359	\$ 46,437	\$ 69,387
Vendor take-back loan interest	20,841	66,136	21,193	65,307
Interest on long-term debt	82,050	226,400	69,188	69,188
Bank indebtedness	2,818	10,656	12,527	12,582
Interest income	(6,520)	(6,207)	(8,191)	(18,518)
	\$ 135,942	\$ 413,344	\$ 141,154	\$ 197,946

## 15. INCOME TAXES

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
<b>Income (loss) subject to income taxes</b>	\$ (77,872)	\$ (196,993)	\$ (387,454)	\$ 305,443
Statutory tax rate	32.33 %	32.33 %	33.50 %	33.50 %
Income taxes (recovery) at statutory tax rates	(25,177)	(63,689)	(129,799)	102,322
<b>Adjustments to income taxes</b>				
Temporary differences				
Intangible assets amortization	71,622	214,865	70,664	166,180
Stock-based compensation	22,216	22,216	7,016	11,004
Equity issuance costs	(13,067)	(39,196)	(13,538)	(36,627)
Financing fees	-	-	(4,087)	(8,794)
Depreciation	2,499	7,851	(5,027)	508
Other	(2,594)	(8,996)	(8,175)	(8,175)
Current period adjustments				
Recapture of capital cost allowance	-	-	-	54,325
Non deductible interest	11,882	37,619	15,557	23,245
Capital gain (loss) on sale of assets	-	-	-	(2,404)
Non deductible expenses	2,342	15,284	2,359	8,799
Loss carryforwards from prior years	66,369	35,894	-	-
<b>Current income taxes (recovery)</b>	136,092	221,848	(65,030)	310,383
<b>Recovery of future income taxes</b>	(168,296)	(416,965)	(69,171)	(317,280)

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010

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

	May 31, 2010		August 31, 2009	
<b>Future income tax assets</b>				
Equity issue costs	\$	109,692	\$	148,888
Loss carry forward		176,624		35,809
	\$	286,316	\$	184,697
<b>Future income tax liabilities</b>				
Asset basis differences	\$	71,858	\$	86,926
Amortization - customer relationships and contracts		2,154,504		2,369,368
Deferred costs (included in intangible assets)		-		46,218
	\$	2,226,362	\$	2,502,512

## 16. COMMITMENTS AND CONTINGENCIES

- (a) The Company leases premises under long term leases that expire on August 31, 2010, 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 May 31, 2010 are as follows:

Next 12 months	\$	748,594
13 to 24 months		593,136
25 to 36 months		395,085
37 to 48 months		188,229
49 to 60 months		160,673
Thereafter		39,720
	\$	2,125,437

- (b) In the ordinary course of business, the Company is involved in litigation and other claims. It is management's opinion that the ultimate outcome of these matters will not have a material adverse effect on the financial position or operating results of the Company.

## 17. CASH FLOW SUPPLEMENTARY INFORMATION

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
Interest paid	\$ 35,536	\$ 113,705	\$ 49,771	\$ 75,557
Income taxes paid	-	29,022	369,753	750,293

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2010**

The Company had non-cash transactions as follows:

	May 31, 2010		May 31, 2009	
	3 months ended	9 months ended	3 months ended	9 months ended
<b>Investing Activities</b>				
Business acquisitions	-	-	(5,807,983)	(6,462,367)
Cash flow provided (used) by investing activities	-	-	(5,807,983)	(6,462,367)
<b>Financing Activities</b>				
Increase in long-term debt	-	-	1,850,000	2,219,384
Repayment of long-term debt	-	-	-	-
Common stock issued	-	-	3,957,983	4,242,983
Cash flow provided (used) by financing activities	-	-	5,807,983	6,462,367
<b>Increase (decrease) in cash flow</b>				

## 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 totaled \$21,612 for the 9 months ended May 31, 2010 (2009 – \$20,631). The amount is included in the salaries, wages and benefits expense in these financial statements.

## 19. SUBSEQUENT EVENTS

On July 9, 2010, an arrangement was reached with our Commercial Bank for a maximum \$1,000,000 operating line of credit, bearing interest at prime plus 0.25% with no specific repayment terms. This operating line replaced the \$250,000 operating line described in Note 6 (a).