



GROUPWORKS FINANCIAL CORP.

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

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Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

This Management Discussion and Analysis ("MD&A") covers the third quarter and nine month period ended May 31, 2011 and should be read in conjunction with the annual audited consolidated financial statements of Groupworks Financial Corp. (the "Company") as filed at www.sedar.com. Certain balances have been provided for discussion purposes only.

All financial information is presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise noted. *Certain totals, subtotals and percentages may not reconcile due to rounding.* The information in this MD&A is presented as at July 18, 2011.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at www.sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage organic or acquisition growth, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of the Company, its financial or operating results or its securities.

Readers are cautioned that EBITDA or the Company's calculation of Operating Income, Operating Income before Corporate Costs, Corporate Costs, Adjusted Working Capital, Operating Working Capital and other similar terms do not have standardized meanings as prescribed by GAAP and may not be comparable to similar measures presented by other companies. Further, readers are cautioned that EBITDA or Operating Income should not replace Net income or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of the Company's performance.

Amounts set forth in this MD&A are stated in thousands of dollars except for per share and issued and outstanding share data, and unless otherwise noted.

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INDUSTRY OVERVIEW

Groupworks Financial Corp. is a leading employee benefits and pension consulting firm in Canada. With a growing national footprint of eleven offices in six provinces, Groupworks is bringing together the leading consultants in the industry, offering innovative and customized HR, benefit and pension solutions to its clients.

Although the human resource industry is highly competitive and fragmented, it is poised for significant growth in the next ten years. As the baby boomers age, Companies in Canada will increasingly be faced with a shortage of qualified talent. Virtually every company in Canada purchases HR products or services, be it employee benefits, life and health insurance products, recruitment services, payroll processing, consulting services, training and development, group pension services or other outsourcing functions and services. To take advantage of this unique opportunity within a vast marketplace the Company focuses on group and employee benefit advisory and administrative services, group pension consulting, human resource consulting and recruitment services.

Small and medium enterprise group insurance and pension consulting is serviced by a large number of small regional and local participants. The balance of the industry, which is focused on large employers and government accounts, is serviced by a small number of multinational consulting firms. The scope of services offered includes pension and benefits consulting, pension and benefits administration, communication consulting, actuarial services and wellness consulting. The industry has been under significant competitive pressure over the past several years due to the significant cost increases in group insurance premiums due to increasing healthcare costs, aging demographics and related consumer utilization. With an aging population that is both living and working longer and taking advantage of more medical services and improvements in drugs; cost and utilization are naturally increasing. This, combined with the continued cost shifting from the public to the private sector through reduced coverage under provincial Medicare programs and other public plans, and the long term outlook for group insurance costs, suggests that such premiums will continue to rise. In addition, the group insurance and pension consulting industry has undergone a substantial corporate restructuring in recent years, including a significant consolidation of insurers which has in turn resulted in less competition and potentially increased premiums charged to clients. Employers who provide group insurance coverage are therefore demanding greater services from their insurance consultants, including enhanced resources, outsourcing solutions and more creative ways to reduce costs. The multinational consulting firms primarily offer fee based consulting and administrative services, with the balance of the marketplace operating primarily on commission based compensation, with limited fee based services available depending upon the client and the services required.

HR consulting and staffing services is dominated by many small players and a few larger multinational firms. The aging workforce and limited inflow of skilled labour has long been recognized as creating a shortage of skilled labour and talent, therefore, increasing the need for client companies to use recruitment firms and HR consulting firms to help them to recruit, retain and reward employees. This is particularly evident in many small to medium sized enterprises (“SME”) which lack the expertise and internal resources to effectively recruit and retain talent, therefore the need to outsource this function. HR consulting and recruitment firms primarily offer fee based services.

Management believes that the continued evolution and growth of the benefits, pension, insurance and human resource industries combined with external factors such as aging demographics, regulatory and legal changes and technology will continue to cultivate the need by clients for external expertise in consulting and administrative matters in order to recruit, retain and reward employees. In addition, management believes that consultant demographics and lack of succession planning options is positioning the industry for consolidation. The Company’s unique approach to provide these services within a one stop shop approach positions the Company well within the overall HR and insurance distribution industry.

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BUSINESS OVERVIEW

The Company delivers employee group benefit consulting, third party benefits administration, group retirement consulting, strategic HR consulting and recruitment services to help companies recruit, retain and reward employees. The Company achieves this through its approximately 185 professionals and support staff with fourteen offices in seven provinces in Canada. The Company earns its revenues from a diverse base of clients in various industries. Approximately 84% of the Company's revenues come from employee group benefit consulting, third party benefits administration and group retirement consulting while the remainder comes from strategic HR consulting and recruitment services. The shares of the Company trade on the TSX Venture Exchange under the symbol "GWC".

Revenue from group benefit consulting is primarily earned by receiving commissions through and from various insurance carriers. Revenues from third party administration services are earned by charging clients a percentage of claims adjudicated and by earning higher commissions from insurance carriers as the insurance carrier is effectively outsourcing this service to the Company. The Company is a reseller of benefit products and services and therefore assumes no underwriting risk as the insurance policy is underwritten by the insurance carrier.

Revenue from group retirement consulting is principally earned through commissions and fees earned from pension assets under administration and is paid by the carrier which administers and invests the funds.

The HR consulting and recruitment services offered by the Company derive revenue primarily by charging clients fees for consulting engagements. Fees for HR consulting services are generally based on hourly rates and depend on the nature of the project and skill set and experience of the consultant engaged on the project. Fees for recruitment services are generally charged as a percentage of base or total compensation (base and target bonus) of the candidate being placed. Fees for career management services are based on the level of the program selected by the client. Fees are negotiated with the client prior to the services or engagement starting.

The Company earns interest income from cash balances which is recorded in revenue.

The largest operating expense of the Company is compensation and related costs which includes salaries, commissions, bonuses, stock options, group benefits, and payroll taxes. Other operating expenses include occupancy costs, technology costs (equipment leases, telecommunications and software), non recoverable client service costs (such as printing, travel and third party professional services), claims adjudication fees, training, marketing, office costs, professional services (legal and audit) and insurance.

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FORMATION AND OWNERSHIP STRUCTURE

The Company was formed in July 2006 in order to consolidate various pension and benefits advisory and administrative services businesses under a single corporate structure. The Company issued 4,358,334 common shares and raised \$795.0 through various private placements and also arranged for \$1,000.0 of short term debt which was drawn down for acquisitions as needed. On September 1, 2006, the Company acquired, the Investment Guild Insurance Agency Inc. ("Investment Guild") and Buffett, Taylor & Associates Insurance Agencies Inc. ("Buffett Taylor") both of which operate established pension and benefits consulting and outsourcing service businesses in Canada. On May 1, 2007 the Company amalgamated with its wholly owned subsidiaries the Investment Guild and Buffett Taylor and continued as Groupworks Financial Corp.

On May 28, 2007 the Company closed its initial public offering (the "Offering") for approximately \$3,780.0 before agent fees, by issuing 6.3 million units. On June 7, 2007 the Offering was completed when Jones Gable & Company Limited (the "Agent") exercised its over allotment option for an additional 600,000 units for gross proceeds of approximately \$360.0 to the Company. Agent, legal and accounting fees related to the offering totaled approximately \$687.2 for net overall proceeds of approximately \$3,452.8. Each unit consisted of one Common Share and one half of one share purchase warrant of the Company (each whole such purchase warrant, a "Warrant"). Each Warrant entitled the holder thereof to acquire, subject to adjustments pursuant to the warrant indenture under which the Warrants had been issued, one Common Share at a price of \$1.00 until May 27, 2009, provided the closing price of Common Shares on the principal stock exchange on which such shares traded exceeded \$1.20 for 20 consecutive trading days, then the Warrant term would automatically be reduced and the Warrants would expire on the date 30 days following the issuance of a press release announcing the reduced Warrant term. On May 27, 2009, 3,891,000 warrants expired unexercised. On June 6, 2009, the remaining 42,000 warrants associated with the exercising of the over allotment from the initial public offering expired unexercised.

On July 5, 2007 the Company completed the acquisition of Gallivan & Associates Student Networks Inc. ("Gallivan") and 1246689 Ontario Limited ("124") which operate a student benefits advisory business across Canada. Gallivan operated as a wholly owned subsidiary of Groupworks during fiscal 2008. On September 1, 2008, the Company amalgamated with Gallivan and 124 and continued as Groupworks Financial Corp.

On December 31, 2008 the Company signed a Share Exchange Agreement acquiring all the outstanding shares of People Corporation ("People") and consequently its two operating entities, Health Source Plus Inc./Source Santé Plus Inc. ("HSP") of Toronto, Ontario and People First HR Services Ltd. ("People First") of Winnipeg, Manitoba. The transaction closed on March 1, 2009 after receiving regulatory approval. The Company operates People as a wholly owned subsidiary.

Effective January 1, 2009 the Company acquired all of the outstanding shares of White Willow Benefit Consultants Incorporated ("White Willow") of Stouffville, Ontario. The Company operates White Willow as a wholly owned subsidiary.

Effective May 1, 2011 the Company acquired all of the outstanding shares of Les Assurances W.B. Inc. ("LAWB") of Quebec City, Quebec. The Company operates LAWB as a wholly owned subsidiary.

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SELECTED FINANCIAL INFORMATION

Amounts are derived from the unaudited interim financial statements.

	Q1		Q2		Q3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Income Statement Information								
Revenue	5,234.9	4,896.3	6,179.4	4,999.4	6,025.8	4,901.8	17,440.1	14,797.5
Expenses								
Salaries and benefits	2,794.3	2,829.0	3,032.3	2,996.5	3,292.0	2,798.1	9,118.6	8,623.6
General and administrative	1,122.4	1,115.1	1,392.5	1,034.6	1,243.8	1,050.9	3,758.6	3,200.6
Commissions	350.0	372.5	554.5	317.0	669.1	350.5	1,573.5	1,039.9
Advertising and promotion	284.7	231.2	317.0	273.3	343.5	289.1	945.2	793.5
EBITDA (see note (i) below)	683.5	348.6	883.1	378.1	477.5	413.3	2,044.2	1,139.9
Stock based compensation	-	-	-	-	100.2	68.7	100.2	68.7
Income before undernoted items	683.5	348.6	883.1	378.1	377.3	344.6	1,944.0	1,071.2
Other Expenses								
Interest expense	(99.1)	(140.3)	(105.9)	(137.1)	(120.4)	(135.9)	(325.4)	(413.3)
Depreciation of capital assets	(69.3)	(62.1)	(74.2)	(63.2)	(74.5)	(65.0)	(218.0)	(190.2)
Amortization of intangible assets	(221.5)	(230.7)	(221.5)	(212.4)	(222.8)	(221.5)	(665.9)	(664.6)
Income (loss) before taxes	293.6	(84.5)	481.5	(34.6)	(40.4)	(77.8)	734.7	(196.9)
Income taxes (recovered)								
Current	231.3	50.9	112.2	34.9	69.9	136.1	413.4	221.8
Future	(168.0)	(117.2)	11.5	(131.5)	(60.5)	(168.3)	(217.0)	(417.0)
Net income and comprehensive income	230.3	(18.2)	357.8	62.0	(49.8)	(45.6)	538.3	(1.9)
Balance Sheet Information								
Total assets	23,948.1	27,104.8	24,051.9	25,843.5	23,671.4	25,246.1	23,671.4	25,246.1
Total debt	2,953.7	4,685.9	2,870.5	4,349.5	2,695.7	4,099.7	2,695.7	4,099.7
Other liabilities (excl. future taxes)	6,893.4	7,584.7	6,710.9	6,682.2	6,488.9	6,398.8	6,488.9	6,398.8
Shareholders' equity	12,595.8	12,412.4	12,953.7	12,511.4	13,004.1	12,521.4	13,004.1	12,521.4
Total liabilities and shareholders' equity	23,948.1	27,104.8	24,051.9	25,843.5	24,603.9	25,246.1	23,671.4	25,246.1
Weighted average shares outstanding								
- basic	35,954,205	32,803,861	32,970,527	32,811,268	32,970,527	32,970,527	32,970,527	32,862,469
- fully diluted	35,954,205	32,803,861	35,952,670	35,468,223	36,105,985	32,970,527	36,036,351	32,862,469
Income (loss) per share	\$ 0.006	\$ (0.001)	\$ 0.011	\$ 0.002	\$ (0.002)	\$ (0.001)	\$ 0.016	\$ -
Fully diluted income (loss) per share	\$ 0.006	\$ (0.001)	\$ 0.010	\$ 0.002	\$ (0.001)	\$ (0.001)	\$ 0.015	\$ -

- (i) Management defines EBITDA as earnings before interest, taxes, depreciation and amortization, stock-based compensation and other non cash charges. Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure for investors of earnings before debt service, capital asset charges and taxes. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flow from operating, investing and financing activities or the Company's liquidity. EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore the Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies or issuers.

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SUMMARY AND OUTLOOK

Over past two years, as a result of M&A activity, the Company has added significant operating capabilities including an enhanced corporate management team, a third party administrative back office and has broadened its product offerings to include Group Retirement Services (“GRS”), Optional Benefit Products that enhance existing group benefit programs and HR Services like Recruiting, Outplacement and Strategic Consulting. As a result, the Company significantly increased the scale of the business, the size of its employee population and expanded operations into Manitoba and Quebec.

During the most recent fiscal year, the Company focused its effort on identifying synergies and economics of scale that were possible with the entities acquired in the prior fiscal year and initiated and completed a number of strategic initiatives including the integration and consolidation of finance and accounting which included the selection and implementation of an enterprise accounting system and enhanced financial policies, financial reporting and controls. The systematic focus of consolidating and integrating services across the existing entities has allowed the Company to focus on standardizing systems and procedures across the operations of the Company. As a result, the Company was able to quickly and effectively implement its operations and processes at its most recent acquisition of LAWB. The Company combined acquisition growth with a focus on generating organic growth through new and existing clients via increased client service offerings. In addition, the Company invested significantly in its proprietary inside sales system and processes to increase lead generation and future revenue generating opportunities with a view to build out a unique service and product offering for both consultants who are part of Groupworks as well as for future acquisitions.

2011 Third Quarter and Year To Date Milestones:

Groupworks continued its positive momentum and strong performance during the third quarter ended May 31, 2011. Corporately, our objectives continued to focus on (i) shifting expenses from non-revenue generating activities to revenue generating activities with a view of boosting organic growth; (ii) promoting and recruiting leadership to execute our organic growth plans; (iii) building out three key revenue generating functions: Business Development, Integrated Solutions and Group Retirement Solutions with a view to enhance growth and to enhance our value proposition for future recruiting, acquisitions and client retention; (iv) and focusing on building a funnel of possible acquisitions.

Results from the implementation of the above strategic initiatives, momentum from past initiatives and the overall improvement in revenue growth can be seen in the Company’s continued improvement in financial performance. Our results are demonstrative of excellent operating leverage whereby increased revenue resulted in increased profitability.

Third Quarter milestones

- Invested in additional leadership by hiring a Regional Vice President who will have overall leadership responsibility for the Province of Quebec.
- Acquired LAWB, a Quebec based group benefits and pension advisory company to expand the Company's presence in Quebec.
- Entered into an agreement with Canadian Imperial Bank of Commerce to establish a \$2 million operating line of credit, a \$2.5 million installment loan to be utilized to refinance existing vendor-take-back debt with more favourable repayment terms and interest rates, and a \$10 million term revolving credit facility to finance future growth through acquisition.
- Opened a new facility in Cambridge, Ontario from which the Integrated Solutions team will operate.
- Expanded our relationships with several third party associate brokerage firms which will serve as an additional revenue channel for the Company, further expanding organic revenue generating opportunities.
- During the quarter the Company continued to build upon its client service model by hiring a Client Manager in Toronto and a Client Manager in Quebec who will be responsible for ensuring top tier client service delivery.

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Additional milestones in the current fiscal year include:

- Developed a new client service model.
- Finalized negotiations with a tenant to sublease a portion of our Markham office space. The tenant will lease 20% of our existing space commencing January 1, 2011 until August 31, 2011 and thereafter will lease 100% of the space until the end of the lease in 2015.
- Continued to roll out the Groupworks Shared Services organizational structure with a view to providing added value to our various service groups and operating brands.
- As part of the new Shared Services structure, the Company continued to establish the Integrated Solutions Group. The Integrated Solutions Group provides services to help the Company's benefits consultants grow and enhance their client service offering by going to market on an integrated basis and offering existing clients the Company's full suite of products. In addition, the group will have responsibility for product development and launching a suite of optional and individual insurance products. The Company has now developed a full staff complement within this division which includes a client manager, an account executive and a consulting & marketing specialist which will support the unit's mandate.
- Following the hiring of Ms. Andrea Kreutzer to the position of Vice President, Group Retirement Solutions the company has hired a seasoned account executive under Ms. Kreutzer to provide further support and concierge level client services to our group retirement clients.
- On September 15, 2010, Groupworks paid the final balance of the vendor-take-back debt associated with the acquisition of Gallivan.
- The Company completed the final part of the HR restructuring resulting from the integration of People and the Company by eliminating non-revenue generating positions and adding additional revenue generating positions at no incremental overhead cost to the Company.
- Commenced negotiations with suppliers to arrange better pricing.

Looking forward, Groupworks is focused on increasing its recruiting efforts in order to increase its consultant force. In addition, the Company is devoting more resources toward acquisition activities and towards organic growth opportunities.

Nine Month Financial Results

For the nine months ended May 31, 2011 revenue grew by 17.9% from the prior year's revenues of \$14,797.5 to \$17,440.1. Strong growth in revenue is due primarily to ongoing organic revenue growth resulting from the addition of new clients from leads generated through the Company's proprietary inside sales system and additional revenue from new clients obtained through the efforts of our additional consultants and associate producers.

While revenues for the nine months ended May 31, 2011 grew by \$2,642.6, operating costs increased by \$1,515.7 thereby causing Operating Income before Corporate Costs to increase to \$4,418.9 compared to \$3,292.0, for the prior year, representing a 34.2% increase in operating profits. The increase in Operating Income before Corporate Costs is representative of continued organic revenue growth and new client attraction in the underlying employee benefits business, cost reduction efforts across the operations of the Company, the shift of expenses from non-revenue generating activities to revenue generating activities, and ongoing improved performance in Recruiting and HR Consulting services.

Corporate Costs for the nine months ended May 31, 2011 were \$2,374.7 compared to \$2,152.1 incurred in the prior period an increase of \$222.6. This increase is largely representative of additional staff resources and increased professional fees. The increase in costs is partially offset by savings as a result of the Company's focus on cost reduction and reinvestment of these cost savings into revenue generating activities. The increase in professional fees are one time costs associated with various employment arrangements and acquisition related legal fees and the professional advice received in connection with the new consultant compensation program.

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As a result of the above, EBITDA increased to \$2,044.2 for the nine months ended May 31, 2011 from \$1,140.0 for the same period in the prior year. The increase of \$904.2 or 79.3% is demonstrative of the Company's significant operating leverage.

Three Month Financial Results

For the three months ended May 31, 2011 revenue grew by 22.9% from the \$4,901.8 of revenue experienced in the prior quarter to \$6,025.8. The improved revenue performance is due to the Company's focused approach on building on organic growth opportunities coupled with ongoing growth in its client base via the development of the Shared Services structure.

Revenue for the third quarter increased by \$1,124.0 while operating costs increased by \$993.7 thereby causing Operating Income before Corporate Costs to increase by \$130.3 or 10.9% over the period to \$1,323.8 compared to \$1,193.5 for the prior period. While the Company continues to focus its efforts on generating organic growth in revenues amongst its existing client base, acquiring new clients via its recently developed Shared Services Group, and continuing to focus on reducing operating costs across the Company, \$540.0 of the \$993.7 increase in operating costs is the result of the additional commissions paid to internal consultants and to third party associate brokerage firms, \$85.0 is the result of additional office space requirements and the development of the office space for our Shared Services group and \$393.0 is the result of additional salary tied to new hires and increased revenues offset by net cost savings in numerous other areas.

Corporate Costs for the three months ending May 31, 2011 were \$846.3, an increase of \$66.1 from the \$780.2 experienced in the same period the prior year. The increase in Corporate Costs is attributable to the additional investment in Corporate Development resources, increased travel costs relating to acquisition targets and organic growth projects, and legal and professional fees incurred both for general counsel as well as acquisition related legal fees. When combined with operating costs incurred at the operating entities, overall operating costs increased to \$5,548.3 in the current quarter from \$4,488.5 that was recorded in the prior quarter, an overall increase of \$1,059.8 or 23.6%. The increase in operating costs, other than those impacts previously mentioned, is largely a factor of increased commissions and performance based bonuses that are directly related to the increase in revenue experienced across the Company.

As a result of the above, EBITDA increased to \$477.5 in the third quarter of fiscal 2011 from \$413.3 for the same period the prior year, representing an overall increase of \$64.2 or 15.5%.

Cash has decreased by \$226.6 for the third quarter of Fiscal 2011. The decrease in cash is as a result of cash from operating activities of \$290.9 largely offset by purchases of capital assets of \$65.2, net effects of long term debt of \$413.7 relating to long term debt repayments and short term loan advances and repayments of lease obligations of \$5.7 resulting in ending cash balances of \$697.9 as at May 31. In the third quarter of fiscal 2010, cash decreased by \$482.1 in the quarter, predominantly a result of cash utilization from operations of \$170.5 further reduced by net long term debt effects of \$286.6 and repayments of lease obligations of \$8.0.

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Outlook

Management believes that the employee benefits industry and the business of the Company are poised for growth. The industry is poised for growth as a result of rising health care costs and the long term trend of tightening labour markets. The industry is also ripe for consolidation as a result of the aging demographics of regional consulting practices and the significant demand from mid-market employers to manage the costs and requirements of providing employee benefits to staff and while ancillary HR services like Recruiting, Outplacement and HR Consulting have suffered decreased demand through the recent economic downturn, these service areas are expected to grow significantly due to long term employment trends.

In order to take advantage of these industry trends and the opportunity for growth, the Company has developed and implemented a strategic plan that focuses on growth through acquisition combined with specific business plans for each of its operating brands to enhance organic growth opportunities. The Company's design and recent roll out of its Shared Services structure is expected to provide both significant revenue growth opportunities to the existing operating brands as well as a value added recruiting tool for new consultants and acquisition targets. The last quarter saw certain fixed costs that were focused on non-revenue generating activities restructured so as to be more focused on revenue generating activities including investments in the areas of group retirement solutions, business development and integrated solutions. Management expects that their plan, the restructuring of costs and focus on organic growth and its Shared Services strategy will result in accelerated organic growth during fiscal 2012 and be demonstrative of enhanced operating leverage going forward.

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ANALYSIS OF THE THIRD QUARTER AND FIRST NINE MONTHS OF FISCAL 2011**Revenue**

During the first nine months of fiscal 2011, the Company increased its revenues by \$2,642.6 over the same period in the prior year. Revenue for the nine months ended May 31, 2011 was \$17,440.1, an increase of 17.9% from the prior year. Growth in revenue was due to a combination of organic revenue growth resulting from the addition of new clients from leads generated through the Company's proprietary inside sales system as well as acquisition of new clients from leads generated from the Shared Services Group.

Revenue for the third quarter ended May 31, 2011 experienced strong growth of \$1,124.0 from \$4,901.8 in the prior year, to \$6,025.8 in the current quarter, an increase of 22.9%. The increase is comprised of \$898.9 attributable to growth in Commission based revenue and \$225.1 attributable to growth in Fee based revenue.

Salaries and Benefits Expenses

Salaries and benefits for the nine months ended May 31, 2011 were \$9,118.6 versus \$8,623.6 for the same period a year ago, an increase of \$495.0. Of the \$9,118.6 in salaries and benefits expense, \$8,101.7 of the expense relates to salary and associated source deductions and benefits while the remaining \$1,016.9 relates to bonuses. In the prior period, \$859.1 related to bonus while the remaining \$7,764.5 related to salaries, source deductions and benefits expense. The \$157.8 increase in bonuses is a result of revenue based goals being achieved. The slight increase in salaries and benefits expense was a result of the Company's continued integration efforts that replaced redundant and non revenue generating roles with roles that focused on revenue generation. During the nine months ended May 31, 2011 the Company hired additional revenue generating staff: the Vice President of Integrated solutions, the Vice President of Group Retirement Solutions and the Manager of Business Development as well as several other frontline revenue generating roles within the Shared Services Group. The cost of these additional hires were partially offset by the elimination of two senior non revenue generating roles as well as through compensation practices that sees lower base salaries for staff additions and more variable compensation tied to revenue generation.

Salaries and benefits for the three months ended May 31, 2011 were \$3,292.0 versus \$2,798.1 for the same period a year ago, an increase of \$493.9. The increase is a result of additional performance based bonuses awarded for meeting or surpassing established revenue targets coupled with a general increase in salaries and benefits associated with the growth in the Shared Services Group.

General and Administrative Expenses

General and administrative expenses are composed of expenditures identified in the following table:

	May 31, 2011		May 31, 2010	
	3 months	9 months	3 months	9 months
Claims Adjudication	380.4	1,092.4	354.0	1,022.7
Office Space	345.5	834.5	260.0	787.5
Office Supplies and Communication	283.8	828.2	232.0	758.9
Professional Fees and Public Company Costs	227.4	760.9	148.9	398.5
Other	23.0	242.6	56.0	233.0
	<u>1,260.1</u>	<u>3,758.6</u>	<u>1,050.9</u>	<u>3,200.6</u>

General and administrative expenses for the nine months ended May 31, 2011 were \$3,758.6 versus \$3,200.6 for the same period in the prior year, an increase of \$558.0. The Company's efforts on identifying and implementing cost reduction opportunities where possible continue to generate cost saving. While cost reduction efforts are ongoing, nominal increases amongst the various subcategories of General and Administrative expenses are a direct result of growth in operations that is driving the revenue growth. Claims adjudication fees are related to continued growth in revenue while other General and Administrative expenses are directly attributable to the growth in staff and operating costs associated with the Shared Services Group.

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General and administrative expenses for the third quarter are \$1,243.8 versus \$1,050.9, an increase of \$192.9 over the prior year. This increase is comprised largely of additional public company costs in the form of insurance for Directors and Officers of the Company, Errors and Omissions insurance, Directors fees, claims adjudication fees directly tied to revenue growth, general professional fees and services as well as acquisition related legal fees.

Commission Expenses

Commission expenses for the third quarter and nine months ended May 31, 2011 were \$669.1 and \$1,573.5 respectively versus \$350.5 and \$1,039.9 for the same period in the prior year. The increase in commission's expense for the third quarter and nine months ended May 31, 2011 is largely reflective of increased commissions tied to revenue generated from the Shared Services Group.

Advertising and Promotion Expenses

Advertising and promotion increased by \$151.7 for the nine months ended May 31, 2011 to \$945.2, from \$793.5 recorded in the prior period. The increase is comprised of additional costs relating to the Company efforts to generate revenue growth, and ongoing travel related to discussions with entities within the Company's acquisition funnel.

Advertising and promotion for the third quarter of Fiscal 2011 increased to \$343.5 from the \$289.1 that was incurred in the prior period, an increase of \$54.4. This increase is partially related to travel incurred in completing the acquisition of LAWB.

Interest Expense

Interest expense for the third quarter and nine months ended May 31, 2011 was \$120.4 and \$325.4 respectively, which are decreases of \$15.5 and \$87.9 from the \$135.9 and \$413.3 incurred for the same periods last year. The decrease is due to the repayment of long-term debt and the associated reduced debt levels in general.

Depreciation and Amortization

Depreciation and amortization for the third quarter and nine months ended May 31, 2011 were \$297.3 and \$883.9, which is an increase of \$10.8 and \$29.1 over the same period last year. The increase is representative of additional amortization relating to required purchase of capital assets.

Income Tax Expense

For the nine months ended May 31, 2011 current income taxes have increased from the \$221.8 incurred in the prior year to \$413.4 in the current year. This is primarily a result of the increase in profitability of the Company offset in part by the utilization of tax loss carry forwards that had occurred in prior periods. For the third quarter ended May 31, 2011 the current income tax expense was \$69.9 compared to an expense of \$136.1 in the same period a year ago.

Net Income

As a result of the revenue and expenses described above, the results for the third quarter was a loss of \$49.8, an increase of \$4.1 from a net loss of \$45.7 recorded in the same quarter last year. Net income for the nine months ended May 31, 2011 was \$538.4, an increase of \$540.2 from the prior year.

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FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

NON-GAAP FINANCIAL MEASURES

Net income details for the three quarters and nine months ended May 31, 2011: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Q3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	5,234.9	4,896.3	6,179.4	4,999.4	6,025.8	4,901.8	17,440.1	14,797.5
Operating costs (i)	3,908.5	3,860.4	4,410.8	3,936.8	4,702.0	3,708.3	13,021.2	11,505.5
Operating Income before Corporate Costs	1,326.4	1,035.9	1,768.6	1,062.6	1,323.8	1,193.5	4,418.9	3,292.0
Corporate costs (ii)	642.9	687.3	885.5	684.6	846.3	780.2	2,374.7	2,152.1
EBITDA (iii)	683.5	348.6	883.1	378.1	477.5	413.3	2,044.2	1,140.0
Less:								
Stock-based compensation expense	-	-	-	-	100.2	68.7	100.2	68.7
Income before undernoted items	683.5	348.6	883.1	378.1	377.3	344.6	1,944.0	1,071.2
Interest expense	99.1	140.3	105.9	137.1	120.4	135.9	325.4	413.3
Depreciation of capital assets	69.3	62.1	74.2	63.2	74.5	65.0	218.0	190.3
Amortization of intangibles	221.5	230.7	221.5	212.4	222.8	221.5	665.9	664.6
Income taxes	63.3	(66.3)	123.7	(96.6)	9.4	(32.2)	196.4	(195.1)
Net income	230.3	(18.2)	357.8	62.0	(49.8)	(45.6)	538.4	(1.9)

- (i) Represent operating expenses of the acquired businesses and are part of the expense disclosed in the unaudited interim and audited annual financial statements.
- (ii) Represent expenses incurred at the corporate head office and are part of the expense disclosed in the unaudited interim and audited annual financial statements.
- (iii) Management defines EBITDA as earnings before interest, taxes, depreciation and amortization, stock-based compensation and other non cash charges. Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure for investors of earnings before debt service, capital asset charges and taxes. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flow from operating, investing and financing activities or the Company's liquidity. EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore the Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies or issuers.

Operating Income before Corporate Costs

Operating Income before Corporate Costs for the nine months ended May 31, 2011 increased from \$3,292.0 in the prior period to \$4,418.9 in the current period, an increase of 34.2%. The increase in Operating Income before Corporate Costs is comprised of a combination of the increases in revenues from organic growth and additions to the existing client base offset with the smaller proportionate increase in related operating costs. The Company allocates various services and supplies, which include Error and Omission insurance, Property and Casualty insurance, consolidation of professional services including recruiting, legal and accounting services to the subsidiaries. These costs were previously absorbed within the Corporate Cost Center.

Operating Income before Corporate Costs for the three months ended May 31, 2011 grew from \$1,193.5 in the prior period to \$1,323.8 in the current fiscal year, an increase of \$130.3. This increase is largely attributable to the successful generation of organic growth within the existing client bases coupled with cost saving measures that were implemented by the corporate management team throughout the course of the year offset by higher commissions that are directly tied to new revenue generated and additional costs of frontline staff that have allowed for revenue growth and enhanced service offerings.

Corporate Costs

Corporate Costs for the nine months ended May 31, 2011 were \$2,374.7 versus \$2,152.1 incurred in the prior period. The increase in Corporate Costs is a result of general professional and legal fees associated with legal counsel and accounting advice relating to various employee matters, the development of an employee share purchase plan, new employee contracts, a new consultant compensation program coupled acquisition related legal fees.

Corporate Costs for the third quarter ended May 31, 2011 were \$846.3 versus \$780.2 for the same period in the prior year. The increase in Corporate Costs for the period is the result of increased professional fees associated with general legal counsel and acquisition related legal fees.

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

EBITDA

EBITDA for the nine months ended May 31, 2011 was \$2,044.2, an increase of \$904.2 from the \$1,140.0 of EBITDA that was reported for the same period in the prior year.

EBITDA for the third quarter ended May 31, 2011 was \$477.5, an increase of \$64.2 from the \$413.3 of EBITDA that was reported for the same period in the prior year.

The continued improvement in EBITDA illustrates the effective measures the Company has developed to generate additional revenue while minimizing controllable costs.

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

SUPPLEMENTARY SELECTED QUARTERLY FINANCIAL INFORMATION

	May 31, 2011	February 28, 2011	November 30, 2010	August 31, 2010	May 31, 2010	February 28, 2010	November 30, 2009	August 31, 2009
Income Statement Information								
Revenue	6,025.8	6,179.4	5,234.9	5,889.8	4,901.8	4,999.4	4,896.3	5,160.6
Expenses								
Salaries and benefits	3,292.0	3,032.3	2,794.3	2,947.9	2,798.1	2,996.5	2,829.0	2,794.0
General and administrative	1,243.8	1,392.5	1,122.4	1,065.5	1,050.9	1,034.6	1,115.1	964.1
Commissions	669.1	554.5	350.0	812.0	350.5	317.0	372.5	750.7
Advertising and promotion	343.5	317.0	284.7	267.0	289.1	273.3	231.2	259.8
EBITDA	477.5	883.1	683.5	797.3	413.3	378.1	348.6	392.0
Stock based compensation	100.2	-	-	-	68.7	-	-	3.6
Income before undernoted items	377.3	883.1	683.5	797.3	344.6	378.1	348.6	388.4
Other expenses								
Interest expense	(120.4)	(105.9)	(99.1)	(121.0)	(135.9)	(137.1)	(140.3)	(134.5)
Depreciation of capital assets	(74.5)	(74.2)	(69.3)	(72.7)	(65.0)	(63.2)	(62.1)	(65.2)
Amortization of intangible assets	(222.8)	(221.5)	(221.5)	(221.5)	(221.5)	(212.4)	(230.7)	(202.0)
Recovery of development costs	-	-	-	-	-	-	-	-
Gain on settlement of debt	-	-	-	-	-	-	-	-
Income (loss) before taxes	(40.4)	481.5	293.6	382.1	(77.8)	(34.6)	(84.5)	(13.3)
Income taxes (recovered)								
Current	69.9	112.2	231.3	167.2	136.1	34.9	50.9	195.0
Future	(60.5)	11.5	(168.0)	344.6	(168.3)	(131.5)	(117.2)	(240.0)
Net income (loss) and comprehensive income (loss)	(49.8)	357.8	230.3	(129.7)	(45.6)	62.0	(18.2)	31.7
Balance Sheet Information								
Total assets	23,671.4	24,051.9	23,948.1	25,081.9	25,246.1	25,843.5	27,104.8	26,079.4
Total debt	2,695.7	2,870.5	2,953.7	3,716.3	4,099.7	4,349.5	4,685.9	4,815.5
Other liabilities (excl. future taxes)	6,488.9	6,710.9	6,983.4	7,326.8	6,398.8	6,682.2	7,584.7	7,139.9
Shareholders' equity	13,004.1	12,953.7	12,595.8	12,365.5	12,521.4	12,511.4	12,412.4	12,378.4
Total liabilities and shareholders' equity	23,671.4	24,051.9	23,948.1	25,081.9	25,246.1	25,843.5	27,104.8	26,079.4
Weighted average shares outstanding								
- basic	32,970,527	32,970,527	35,954,205	32,970,527	32,970,527	32,811,268	32,803,861	32,803,861
- fully diluted	36,105,985	35,952,670	35,954,205	32,970,527	32,970,527	35,468,223	32,803,861	35,851,578
Income (loss) per share	\$ (0.002)	\$ 0.011	\$ 0.006	\$ (0.003)	\$ (0.001)	\$ 0.002	\$ (0.001)	\$ 0.01
Fully diluted income (loss) per share	\$ (0.001)	\$ 0.010	\$ 0.006	\$ (0.003)	\$ (0.001)	\$ 0.002	\$ (0.001)	\$ 0.01

Management Discussion & Analysis

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SELECTED ANNUAL FINANCIAL INFORMATION

Amounts are derived from the audited annual financial statements.

	Year Ended August 31			
	2010	2009	2008	2007
Income Statement Information				
Revenue	20,687.3	13,616.8	6,897.9	3,848.2
Expenses				
Salaries and benefits	11,571.4	7,844.2	3,170.9	1,786.7
General and administrative	4,266.1	2,566.7	1,210.8	686.3
Commissions	1,851.9	1,154.8	830.5	650.1
Advertising and promotion	1,060.6	811.3	460.3	224.5
EBITDA (see note (i) below)	1,937.2	1,239.8	1,225.4	500.6
Stock based compensation	68.7	36.5	142.7	124.1
Income before undernoted items	1,868.5	1,203.4	1,082.7	376.5
Other Expenses				
Interest expense	(534.4)	(332.4)	(168.7)	(295.7)
Depreciation of capital assets	(262.9)	(165.4)	(98.8)	(47.8)
Amortization of intangible assets	(886.1)	(717.7)	(552.4)	(296.7)
Recovery of development costs	-	15.3	-	-
Gain on settlement of debt	-	289.0	-	-
Writedown of capital asset	-	-	(26.3)	(48.7)
Income (loss) before taxes	185.1	292.2	236.5	(312.3)
Income taxes (recovered)				
Current	389.0	505.3	318.2	113.4
Future	(72.4)	(557.5)	(230.6)	(11.5)
Net income (loss) and comprehensive income (loss)	(131.5)	344.5	149.0	(414.2)
Balance Sheet Information				
Total assets	25,081.9	26,079.4	13,806.5	15,327.2
Total debt	3,716.3	4,815.5	2,384.9	3,573.9
Other liabilities (excl. future taxes)	7,326.8	7,139.9	1,948.3	2,343.0
Shareholders' equity	12,365.5	12,378.4	7,761.6	7,468.2
Total liabilities and shareholders' equity	25,081.9	26,079.4	13,806.5	15,327.2
Weighted average shares outstanding				
- basic	32,889,705	24,434,844	15,806,049	7,955,969
- fully diluted	32,889,705	29,209,328	21,173,956	7,955,969
Income (loss) per share	\$ (0.004)	\$ 0.014	\$ 0.009	\$ (0.052)
Fully diluted income (loss) per share	\$ (0.004)	\$ 0.012	\$ 0.007	\$ (0.052)

- (i) Management defines EBITDA as earnings before interest, taxes, depreciation and amortization, stock-based compensation and other non cash charges. Management believes that in addition to net income (loss), EBITDA is a useful supplemental measure for investors of earnings before debt service, capital asset charges and taxes. This earnings measure should not be construed as an alternative to net income or as an alternative to cash flow from operating, investing and financing activities or the Company's liquidity. EBITDA does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) and therefore the Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies or issuers.

Management Discussion & Analysis

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SEASONALITY

During the first nine months of fiscal 2011, the Company began to experience the impacts of the newly developed Shared Services Group. Previously, the Company expected marginally higher revenues in the first quarter due to the renewal of a large association client, as well as, the seasonal impacts associated with student benefit advisory services. While revenues had generally been consistent from quarter to quarter, with cash flows being greatest in the first quarter, followed by the fourth quarter, these seasonal fluctuations are being positively impacted by the contributions of the Shared Services Group and the continued organic growth within each of its operating brands. It is management's belief that as the Shared Services Group continues to develop and mature the seasonal impacts in revenue and cash flow will be minimized.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flows**

The following table summarizes the Company's cash flows for the three quarters and nine months ended May 31, 2011: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Q3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Operating activities	\$ 75.2	\$ 928.3	\$ 175.5	\$ (494.2)	\$ 289.7	\$ (170.5)	\$ 540.3	\$ 263.7
Investing activities	(24.8)	(25.9)	(90.4)	(23.5)	(96.9)	(17.0)	(212.1)	(66.3)
Financing activities	(800.3)	(181.7)	(74.2)	(333.7)	(419.4)	(294.6)	(1,293.8)	(810.0)
Increase (decrease) in cash	\$ (749.9)	\$ 720.7	\$ 10.9	\$ (851.4)	\$ (226.6)	\$ (482.1)	\$ (965.6)	\$ (612.6)

Cash Flow Analysis of the Third Quarter and Nine Months of Fiscal 2011

Cash flow generated from operating activities for the first nine months of fiscal 2011 was \$540.3 an increase of \$276.6 or 104.9% from the \$263.7 of cash generated in the same period in the prior year. Increases in non-cash items were offset by a decrease in accounts receivable balances and an increase in cash utilized in payment of accounts payable and accrued liabilities and income taxes payable. Cash generated from operating activities was \$289.7 in the third quarter of fiscal 2011, a change of \$460.2 from the cash utilized of \$170.5 in the third quarter of fiscal 2010.

Cash flow used by investing activities for the nine months ended May 31, 2011 of \$212.1 and \$96.9 for the third quarter of fiscal 2011 was a largely comprised of capital asset additions required for the Shared Services Group, upgrading existing technology, office furnishings for new office space for the Integrated Solutions Group and also includes the payout of existing lines of credit relating to the acquisition of LAWB.

Financing activities for the nine months ended May 31, 2011 observed substantial cash payments relating to long term debt in the amount of \$1,443.4, comprised of \$856.2 in regular and reoccurring long term debt payments and the payment in full of the \$587.2 vendor take back debt relating to the acquisition of Gallivan. The Company also entered into capital leases for asset additions and obtained a short term loan to fund E&O Insurance. Financing activities in the first nine months of the prior year related to recurring long term debt repayment of \$893.6, a \$50.0 private placement of shares, with the remaining amounts relating to repayments of short term bank indebtedness and capital lease obligations. Short term loans were obtained in both the second and third quarter of both fiscal 2011 and 2010.

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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 has the opportunity to use its operating line of credit during the year to finance cash flows related to seasonal changes in non-cash working capital items. For the first nine months of the fiscal year the Company has not made use of its operating line.

In 2010, the Company entered into a memorandum of understanding with a major Canadian Financial Institution that will allow for up to \$9,000.0 of acquisition financing. This financing arrangement allowed the Company to intensify the efforts of its acquisition strategy. This facility was never utilized by the Company and was replaced as described below.

In the third quarter of 2011, the Company entered into an agreement with the Canadian Imperial Bank of Commerce to establish a \$2,000.0 operating line of credit, a \$2,500.0 installment loan to allow the Company to refinance the existing vendor take back debt with a favourable interest rate and repayment terms, and a \$10,000.0 term revolving investment credit to fund its acquisition strategy. This agreement was finalized subsequent to the end of the third quarter and the effect on working capital and balance sheet presentation will be reflected for the fourth quarter and year ended August 31, 2011. The Company has refinanced loans totalling \$2,052.4 which were previously repayable over an average period of 2.5 years and resulted in \$1,097.9 being reclassified from long term debt to current debt which is a third quarter temporary impact. Under the terms of the new installment loan, the loan will be repayable over a period of 7 years resulting in \$340.0 being classified as short term debt with the remaining \$2,160.0 being classified as long term debt.

Management Discussion & Analysis

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Capital Resources

The following table summarizes the Company's capital resources at:

	May 31, 2011	May 31, 2010	August 31, 2010
Cash	697.9	1,491.3	1,663.6
Working capital (including cash)			
Current assets	3,346.1	3,667.9	4,327.8
Current liabilities			
Bank indebtedness	-	-	-
Accounts payable and accrued liabilities	2,918.6	2,943.4	3,066.6
Deferred revenue (i)	2,803.3	2,742.2	3,168.7
Income tax payable	304.9	227.8	531.6
Current portion of deferred lease inducements	71.7	33.7	39.2
Current portion of obligations under capital lease	17.1	12.7	15.8
Current portion of long-term debt (ii)	2,591.1	1,629.4	1,418.1
Total current liabilities	8,706.7	7,589.2	8,240.0
Working capital	(5,360.6)	(3,921.3)	(3,912.2)
Long-term debt	104.5	2,470.3	2,298.3
Shareholders' equity	13,004.1	12,521.4	12,365.5

(i) Deferred revenue represents funds received in advance for services that will be provided in future periods

(ii) Included in the current portion of long-term debt is \$1,969.9 relating to vendor-take-back debt held by senior management of the company (August 31, 2010 - \$1,310.1)

Deferred revenue is a non-cash liability and therefore management believes that adding back the deferred revenue provides a more accurate reflection of the liquidity and working capital position of the Company. Deferred revenue has a substantial impact on the traditional working capital position of the Company and therefore it is worth fully understanding the nature of the deferred revenue when assessing the liquidity and working capital position of the Company.

Most insurance brokerage and consulting firms are paid commissions at the beginning of the policy year for a twelve month period. It is general practice in the industry to record 90% to 100% of the commission received as revenue on receipt of payment or on implementation of the client or renewal of the client.

The Company is paid commissions 12 to 27 months in advance depending on what rate guarantee was sold on the group. Unlike the typical broker or consulting firm, the Company does not record 90% to 100% of the commission received in advance as revenue on groups where it provides both the consulting and the advisory services. Instead it records the revenue monthly over the period for which it was received. The primary reason for the revenue being recognized in this manner is the fact that services are provided on an ongoing basis, as compared to when only providing the advisory or consulting services where almost all of the services are provided at the time of renewal or implementation.

The ongoing services relate to billing & administration and customer service support. The only time deferred revenue is paid back to the insurance carrier is when the client terminates the policy with an effective date of termination which falls within the policy year. Clients that terminate generally do so close to or at the end of the policy year and therefore any claw back by the carrier is generally for a small amount relative to the original advance. In addition, the Company has negotiated with its primary insurance carriers that any claw back of deferred revenue be offset against future commission due.

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The vendor take back debt is all with senior employees of the Company that are also substantial shareholders of the Company. Given the nature of this relationship it is management's belief that this debt could be renegotiated if required to ensure the ongoing operating of the Company. The Company is of the opinion that it makes sense to add back the vendor take back debt when assessing the true operating working capital of the Company. After these adjustments, the calculation of working capital is as follows:

	May 31, 2011	May 31, 2010	August 31, 2010
Working capital (including cash)			
Current assets	3,346.1	3,667.9	4,327.8
Total current liabilities	8,706.7	7,589.2	8,240.0
Working capital	(5,360.6)	(3,921.3)	(3,912.2)
Add back:			
Deferred revenue	2,803.3	2,742.2	3,168.7
Current portion of VTB debt held by senior management	1,969.9	1,489.1	1,310.1
Adjusted operating liabilities	3,933.5	3,357.9	3,761.2
Adjusted operating working capital	(587.4)	310.0	566.6

Adjusted operating working capital has decreased by \$897.4 to an adjusted working capital deficit of \$587.4 from the adjusted working capital experienced a year ago. The working capital deficiency, a decrease of \$1,154.0 from the prior year end, is a result of the Company's aggressive repayment strategy of higher interest debt, payment of income taxes, general fluctuations in accounts receivable and accounts payable balances and temporarily impacted by GAAP reporting obligations as a result of the reclassification of all of the existing vendor take back debt to current. Subsequent to the end of the third quarter, the Company has finalized the terms of the agreement with the Canadian Imperial Bank of Commerce and as the installment loan will be utilized to replace the existing vendor take back debt of \$1,752.8, the Company was required to reclass all of the existing long debt to be refinanced by the newly acquired installment loan totalling \$1,097.9 as current. The reclassification is a temporary impact for the third quarter. Under the terms of the new installment loan, the loan will be repayable over a period of 7 years resulting in \$340.0 being classified as short term debt with the remaining \$2,160.0 being classified as long term debt. The installment loan to be utilized to refinance the existing vendor take back debt will improve the working capital of the Company as the terms of the loan have favourable interest rates and a repayment term of seven years.

The following summarizes the Company's future expected payments:

	Payments due as follows:			
	Total	Next 12 months	13 to 24 months	Thereafter
Current portion of long-term debt	\$ 2,591.1	\$ 2,591.1	\$ -	\$ -
Long-term debt	104.5	-	70.5	34.0
Operating leases	2,161.8	800.6	603.8	757.4
	\$ 4,857.4	\$ 3,391.7	\$ 674.3	\$ 791.4

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

With enhanced controls around cash management, Management believes that operations will generate sufficient cash flows to fund ongoing operations and finance its seasonal working capital needs. The finalization of the financing agreement with the Canadian Imperial Bank of Commerce subsequent to quarter end regarding a new \$2,000.0 operating line of credit, the \$2,500.0 installment loan that will be utilized to refinance the majority of the existing vendor-take-back debt with favourable interest rates and repayment terms, and the \$10,000.0 term revolving investment credit to fund future growth through acquisition, further supports Managements position that the Company is well Capitalized to continue to execute its growth plans.

RELATED PARTY TRANSACTIONS

During the quarter ended May 31, 2011 outlined below, the Company had significant 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, 2011		May 31, 2010	
	3 months ended	9 months ended	3 months ended	9 months ended
Salaries, wages and benefits (i)	207.7	681.5	281.9	905.2
General and administrative (ii)	14.6	41.6	10.8	38.8
Interest expense (iii)	37.9	120.7	58.7	181.6

	May 31, 2011	August 31, 2010
Accounts payable and accrued liabilities (iv)	\$ 185.4	\$ 305.6
Current portion of long-term debt (v)	512.5	906.6
Long-term debt (v)	1,097.9	1,484.2

- (i) Salaries, bonuses and benefits paid to senior management some of which are also directors of the Company.
- (ii) Directors' fees totalling \$14.6 and \$41.6 for the three months ended May 31, 2011 and nine months ended May 31, 2011; respectively, (2010 – \$10.8 and \$38.0) were paid or accrued to certain directors of the Company.
- (iii) Interest on vendor-take-back debt related to prior acquisitions was paid or accrued totalling \$37.9 and \$120.7 for the three months ended May 31, 2011 and nine months ended May 31, 2011; respectively, (2010 – \$58.7 and \$181.6) to certain officers and directors of the Company.
- (iv) Accrued interest on the vendor-take-back loan amounting to \$nil (August 31, 2010 – \$2.1), Directors fees of \$18.6 (August 31, 2010- \$15.3) and bonus of \$166.9 (August 31, 2010 – \$288.3) is payable to certain members of management.
- (v) Represents vendor-take-back debt on acquisitions and promissory notes payable (Financial Statement note 14 (a), (d), (e),(g) and (h)) owed to officers and directors of the Company.

Management Discussion & Analysis

FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 2011

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are defined as those that are both very important to the portrayal of the Company's financial condition and results, and require management's most difficult, subjective or complex judgments. We are required in preparing the Company's financial statements, in accordance with GAAP, to make certain estimates, judgments and assumptions that we believe are reasonable based upon available information, historical information and/or forecasts. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. Actual results could differ from these estimates. The accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include those relating to revenue recognition, business acquisitions and accounting for the resulting customer relationships and contracts, goodwill and income taxes.

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.

Business combinations

Business acquisitions are accounted for using the purchase method whereby the fair value of consideration given is allocated to identifiable assets acquired and liabilities assumed. The results of operations and cash flows of an acquired business are included in the Company's financial statements from the effective date of acquisition. Where the consideration given is subject to contingent adjustment based on future periods' operating results, such adjustment is recognized in the period the contingency is resolved.

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Amortization of finite-life intangible assets

Under GAAP, finite-life intangible assets are amortized over their estimated useful lives. Management estimates that the estimated useful life of the customer relationships and contracts acquired is 10 years. The Company amortizes the cost of these finite-life intangible assets on a straight-line basis over 10 years. Management tests for recoverability of the carrying value of these intangible assets annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

Goodwill

Goodwill results from business combinations and represents the excess of the consideration given over the fair value of identifiable net assets acquired. Goodwill is not subject to amortization but is subject to an impairment test that is performed at least annually.

Future income tax

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

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.

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 new 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.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. The Company has developed a formal action plan and has allocated internal resources towards ensuring a smooth transition to IFRS. In addition, the Company is considering the use of external consultants to assist in the transition from Canadian GAAP to IFRS reporting.

The Company’s plan consists of four phases plus a comprehensive risk management program that is being executed. Phase one of the plan includes mapping out in detail the expected impact of adopting IFRS on the business, operations and human capital of the Company together with a comprehensive plan to deal with each impact. Phase two of the plan details the specific impact on the Company’s financial reporting and disclosure obligations. Phase three deals with rolling out all the changes including process changes, system changes and human capital training. Phase four deals with quality control and testing to ensure compliance and a smooth transition. All four phases includes risk management which deals with the impact of IFRS on governance, strategy and planning, operations and infrastructure, compliance, reporting and human capital. Management believes that its current progress is sufficient to ensure a smooth transition. Management will continue to provide additional disclosure as it progresses with its plan.

RISKS AND UNCERTAINTIES

The Company operates in a well established and highly competitive industry and its results of operations, business prospects and financial condition are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company. These factors include, but are not limited to, the following:

Key Personnel

The Company is highly dependent upon the expertise and experience of its personnel, particularly those engaged in generating revenue. The Company’s operations depend, in part, on the relationships and reputations these individuals have established with clients, often over many years. In the event the Company were to lose key personnel, client relationships could be negatively impacted which could lead to material adverse effects on the Company’s operating and financial results. In addition, many of the Company’s employees have developed specialized expertise and experience in the delivery of HR and benefit solutions. These solutions include, but are not limited to, specialized HR consulting engagements, recruitment projects, career management, benefits plan design and administration, legislative and regulatory issues, as well as group retirement plan design.

The Company currently has many well experienced employees that have served the Company for five years or more, who hold senior positions in the Company, that have various professional designations and that have developed deep and trusted relationships with clients. While the Company provides a competitive compensation structure including stock options to its employees and has signed comprehensive employment agreements with its employees to protect the Company, in the event that the Company were to lose any of its key personnel, it may have a material adverse effect on the business of the Company. The ability to attract, retain and develop new employees into senior positions could affect the business of the Company.

Regulation and Certification

The Company’s benefit and pension consulting and administration services are subject to laws and regulations that are constantly evolving. In addition, the laws and regulations differ from province to province and the Company is required to keep up to date with the laws and regulations of each province.

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Although there are currently restrictions on the ability of Canadian banks to market insurance products in competition with the Company, such legislation is currently under review. Accordingly, dependent upon the nature of legislative reforms, Canadian banks may in the future be able to offer products which are competitive with the products offered by the Company.

Currently the provisions of recruitment services and HR consulting engagements are not generally subject to government regulation. However, there is no certainty that regulation will not be introduced. Any changes to laws, rules, regulations or policies could have a material adverse effect on the Company's business, financial condition and operating results.

Termination of Contracts

Group insurance contracts are generally re-negotiated on an annual basis with clients, pursuant to which insurance premium pricing increases or decreases. Accordingly, there can be no guarantee that insurance contracts sold through the Company in the past will be renewed on a go-forward basis. While the Company has several benefit and insurance clients with contracts that extend for one to seven years, the majority of the Company's benefit and pension revenue is derived from contracts that can be cancelled with thirty days notice. The Company's experience is that most clients terminate during the renewal process rather than during the policy year. No single client makes up more than 10% of the Company's revenue and the clients are diversified both in size and industry. During the renewal process the benefits consulting team will provide benefits planning and consulting services which could result in decreased benefits coverage and/or decreased premiums which generally results in decreased revenue for the Company. The Company is often paid commissions in advance from the insurance carrier. In the event that a contract is terminated by a client and the Company has been paid in advance for the year, then the Company must rebate the amount paid on a pro rata basis to the insurance company.

Competitive Conditions

The insurance brokerage market is highly competitive and is composed of a large number of companies of varying size and scope of services. Insurance companies themselves also offer their products through other methods, including insurance agents and direct distribution channels, which are competitive with the insurance brokerage industry and the Company.

Future growth via acquisitions dependent on suitable targets

The Company's growth and expansion plans contain a dual approach of generating organic growth through enhanced service offerings amongst the Company's existing client base and through ongoing acquisition of independent Group Benefit, Pension Advisory businesses and HR Consulting and Staffing firms at reasonable prices. There can be no assurance that an adequate number of suitable acquisition candidates will be available to the Company to meet this area of focus of its expansion plans, or in the event that such businesses are available for acquisition that they will be available at a price which would allow the Company to operate on a profitable basis. The Company competes for acquisition and expansion opportunities with entities that have substantially greater resources than the Company and these entities may be able to outbid the Company for acquisition targets.

Inability to successfully integrate future acquisitions

There can be no assurance that the businesses acquired by the Company in the future will achieve acceptable levels of revenue and profitability or otherwise perform as expected. The Company has limited experience in acquiring and integrating brokerages in other markets. The Company may be unable to successfully integrate any business it may acquire in the future, due to diversion of management attention, strains on the Company's infrastructure, difficulties in integrating operations and personnel, entry into unfamiliar markets, or unanticipated legal liabilities or tax, accounting or other issues. A failure to integrate acquired businesses may be disruptive to the Company's operations and negatively impact the Company's revenue or increase the Company's expenses.

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Additional financing, which may not be available

The Company has relied principally on equity and vendor-take-back debt financing to fund its acquisitions. The Company may require additional funds to make future acquisitions of Group Benefit and Pension Advisory businesses and may require additional funds to market and sell its products into the marketplace. The ability of the Company to arrange such financing in the future, and to repay its existing debt, will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, when needed, on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer additional dilution. If additional financing is not available on terms favourable to the Company, the Company may be unable to grow or may be required to limit or halt its expansion plans. In addition, the Company's existing creditors, some of whom have security interests in the Company's assets, may exercise their rights to acquire or dispose of the Company's assets.

No intention to declare dividends

The Company currently intends to retain any future earnings to fund growth and operations and it is not likely to pay any dividends in the immediate or foreseeable future. Any decision to pay dividends on its common Shares in the future will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions at such time.

Legal Risk

In the ordinary course of business, the Company is and could be involved in litigation and other claims as a defendant or as a plaintiff. The outcomes of these actions could result in significant losses to the Company which could have a material adverse effect on the Company's business, financial condition and operating results.

Reputational Risk

The Company is dependent, to a large extent, on its client relationships and its reputation with clients. In addition, the HR Consulting and Staffing part of the Company is dependent upon its reputation with potential candidates that will be placed with clients through its recruitment services. The Company's reputation can be significantly damaged by failing to deliver timely and quality consulting and recruitment services or by failing to provide quality services to potential candidates. The benefit and pension part of the Company relies upon information systems and technology to maintain accurate records and to carry out its contractual administrative obligations. Failing to meet its contractual obligations to clients could result in litigation as well as significant reputational damage to the Company. Damage to the Company's reputation could result in the loss of client and candidate relationships which could result in a material adverse effect on the Company's business, financial condition and operating results.

Canadian Economy

The Company's future success is dependent upon the direction and state of the Canadian economy. The business, operating results and financial condition of the Company could be materially affected by a prolonged and deep recession or downturn in the Canadian economy. The Company may not have sufficient financial resources to withstand a prolonged and deep recession.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.