



GROUPWORKS FINANCIAL CORP.
QUARTERLY REPORT
FOR THE SECOND QUARTER AND SIX MONTHS
ENDED FEBRUARY 29, 2008

GROUPWORKS FINANCIAL CORP.

QUARTERLY REPORT

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March 28, 2008

Notice to Shareholders

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") and accompanying unaudited financial statements of Groupworks Financial Corp. (the "Company"), covers the three and six month periods ended February 29, 2008. Certain balances have been provided for discussion purposes only. This MD&A should be read in conjunction with the interim unaudited financial statements as filed. The Company's Prospectus dated April 2007 and interim unaudited financial statements for fiscal 2007 and 2008 are available at www.sedar.com.

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 March 28, 2008 unless otherwise noted.

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 income tax matters, 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.

This discussion also makes reference to certain non-GAAP measures such as EBITDA, EBITDA margin and Adjusted EBITDA, to assist investors in assessing the financial performance of the Company. Non-GAAP measures do not have any standard meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other issuers.

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.

FORMATION AND OWNERSHIP STRUCTURE OF THE COMPANY

The Company was formed in July 2006 in order to consolidate various pension and benefits advisory 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 \$1.0 million 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 (See Acquisitions below). On May 1, 2007 the Company amalgamated with its wholly owned subsidiaries the Investment Guild and Buffett, Taylor and continued as Groupworks Financial Corp.

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On May 28, 2007 the Company closed its initial public offering (the "Offering") for approximately \$3.8 million 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 \$0.4 million to the Company. Agent, legal and accounting fees related to the offering totaled \$0.7 million for net overall proceeds of approximately \$3.5 million. Each unit consists of one Common Share and one-half of one share purchase warrant of the Company (each whole such purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire, subject to adjustments pursuant to the warrant indenture under which the Warrants have 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 trade exceeds \$1.20 for 20 consecutive trading days, then the Warrant term shall automatically be reduced and the Warrants will expire on the date 30 days following the issuance of a press release announcing the reduced Warrant term.

On July 5, 2007 the Company completed the acquisition of Gallivan & Associates Student Networks Inc. ("Gallivan") which operates a student benefits advisory business across Canada. Gallivan operates as a wholly owned subsidiary of Groupworks (See Acquisitions below).

Directors and management of the Company currently own approximately 36.09% of the issued and outstanding Common Shares calculated as of March 28, 2008. Specifically, Mr. Jeffery Case, President and Director and Mr. Michael Thomas, Secretary-Treasurer and Director, each own 5.93%, Mr. Sean Cleary, Chairman owns 4.01% and Mr. Mark Monaghan, Director holds 4.59% of the issued and outstanding Common Shares. John Gallivan, President of Gallivan & Associates Student Networks Inc. ("Gallivan"), currently owns approximately 10.79% of the issued and outstanding shares of the Company.

BUSINESS OVERVIEW

The Company is a pension and benefits consulting and outsourcing firm, providing services to organizations in various industries. Its clients are primarily small and medium-sized organizations, which typically utilize its services on a recurring or contracted basis over a long term. The Company focuses on the integrated design and delivery of retirement, employee compensation and benefit programs. The Company also services the post secondary education sector by providing medical and dental benefits advisory services to students. The Company has over 50 professionals and support staff with three main offices in Ontario (Markham, Whitby and Waterloo).

The Company derives revenue primarily from commissions paid by its clients' insurance companies, which is common practice for the group benefits consulting business. These commissions are typically disclosed to the client and are based on a percentage of the premiums paid by the client to the insurance company. The Company assumes no underwriting risk as the insurance policy is underwritten by the insurance company. For some benefit consulting engagements, revenue may be derived from fees charged to clients for pension and benefits consulting and outsourcing in lieu of commissions described above. The fees may be earned on an hourly or per employee/student basis. The Company currently derives approximately 52% of its revenues from commissions paid by the insurance companies and the remaining 48% based on fees for service which are contracted for periods of one to seven years. 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), training, marketing, office costs, professional services (legal and audit) and insurance.

Significant External Factors

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

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insurance brokerage industry and the Company.

The Company earns its revenues from a diverse base of clients in various industries. In fiscal 2007, approximately 26% of the Company's revenues were generated from the public sector in the form of municipalities, regions, townships, and school boards, all considered significant and stable employers. The Company also services an industry involving retail, wholesale distribution and production clientele. Approximately 23% of its revenues are generated from this industry segment. With the acquisition of Gallivan, the revenues derived from the above noted sectors for fiscal 2008 will decrease to approximately 13% and 12% respectively and approximately 49% of the revenues will be earned from students in post secondary institutions throughout Canada.

Apart from these and the risk factors noted under the heading "Risks and Uncertainties", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations.

Acquisitions

The Company's business plan, as described above, is to acquire additional businesses which are complementary to the existing businesses. Management has identified and is pursuing a number of group benefit and pension advisory businesses across Canada. In fiscal 2007, the Company closed three acquisitions:

The Investment Guild

The Investment Guild which was established in 1981 specializes in corporate benefits, association plan benefits and flexible benefits. The shares were purchased for consideration of \$2,778.2 involving; short-term debt, issuance of common shares of Groupworks and a vendor take-back loan.

Buffett, Taylor

Buffett, Taylor established in 1981 based in Whitby Ontario, specializes in group benefits in the public, private and not-for-profit sectors. 100% of the shares of Buffett Taylor were purchased from Buffett, Taylor & Associates Insurance Agencies Ltd. in exchange for \$3,161.4. The present value of the consideration given was \$2,900.6 and was settled with cash, vendor take-debt debt and common shares of Groupworks.

Gallivan

On July 5, 2007, the Company purchased the shares of Gallivan & Associates Student Networks Inc. ("Gallivan"), a group benefits advisory company based in Waterloo, Ontario, that specializes in University and College student health and dental benefits in Canada. The aggregate purchase price paid for Gallivan was \$5,893.6 and was settled with cash, vendor take-debt debt and common shares of Groupworks.

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ANALYSIS OF THE SECOND QUARTER OF FISCAL 2008

The following summary financial information is derived from the Company's unaudited consolidated financial statements for the three and six months ended February 29, 2008.

Overview

During its first half of fiscal 2008, the Company successfully integrated the operations of Gallivan and as a result more than doubled its revenues in the period. For the second quarter and six months ended February 29, 2008, revenues were \$1,902.0 and \$3,160.3 respectively up from \$903.7 and \$1,254.1 respectively in the prior year. Operating margin for the quarter was consistent with the prior year but improved to 34.7% from 25.5% for the same six month period a year ago. EBITDA improved to \$579.8 in the second quarter, up from \$275.3 last year and for the six months ended, improved to \$605.0 from \$(111.0) over the same period last year. Net income increased to \$214.9, doubling last year's second quarter net income of \$107.4. On a year to date basis the Company continues to show improvement with \$62.1 of net income versus a loss of \$193.8 reported for the same six months in fiscal 2007.

Management met its expectations in the first half of 2008 and continues to maintain its outlook, without the impact of any additional acquisitions, of approximately \$6.3 million in annualized revenues, an operating margin of approximately \$2.0 million or 32% and annualized EBITDA after head office costs of \$1.0 million.

The Company continues to pursue its strategy of aggregating small and medium sized group benefit and pension advisory service businesses.

Net income (loss) details for the second quarter and year-to-date ended February 29, 2008: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Year to Date	
	2008	2007	2008	2007	2008	2007
Revenue	1,258	350	1,902	904	3,160	1,254
Operating costs (i)	1,004	436	1,061	498	2,065	934
Operating margin	254	(86)	841	406	1,095	320
Operating margin %	20.2%	(24.5)%	44.2%	45%	34.7%	25.5%
Head office costs (ii)	229	78	261	130	490	209
EBITDA (iii)	25	(164)	580	275	605	(111)
Less:						
Stock-based compensation expense	63	59	9	-	72	59
Depreciation of capital assets	22	8	23	8	45	16
Amortization of intangibles	133	58	133	58	266	116
Amortization of deferred costs	5	2	5	3	10	5
Interest expense	39	101	61	86	100	187
Income taxes	(84)	(91)	134	13	50	(78)
Net income (loss)	(153)	(301)	215	107	62	(194)

(i) Represent operating expenses of the acquired businesses and are part of the expense disclosed in the unaudited interim financial statements.

(ii) Represent general and administrative expenses incurred at the corporate head office and are part of the expense disclosed in the unaudited interim 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.

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Selected summary financial information for the second quarter and year-to-date ended February 29, 2008 is as follows: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Year to Date	
	2008	2007	2008	2007	2008	2007
Income Statement Information						
Revenue	1,258	350	1,902	904	3,160	1,254
EBITDA (see note (iii) above)	25	(164)	580	275	605	(111)
Net income (loss)	(153)	(301)	215	107	62	(194)
Balance Sheet Information						
Total assets	14,291	6,971	13,937	7,347	13,937	7,347
Total debt	3,567	4,486	2,956	4,382	2,956	4,382
Other liabilities (excl. future taxes)	1,451	291	1,480	684	1,480	684
Shareholders' equity	7,378	1,327	7,653	1,434	7,653	1,434
Total liabilities and shareholders' equity	14,291	6,971	13,937	7,347	13,937	7,347
Weighted average shares						
outstanding – basic	15,731,155	5,691,667	15,828,609	5,691,667	15,777,882	5,691,667
– fully diluted	21,082,320	7,096,667	21,195,433	7,096,667	21,138,876	7,096,667
Income (loss) per share	\$ (0.010)	\$ (0.053)	\$ 0.014	\$ 0.018	\$ 0.004	\$ (0.034)
Fully diluted income (loss) per share	\$ (0.007)	\$ (0.042)	\$ 0.010	\$ 0.015	\$ 0.003	\$ (0.027)

Revenue

Revenue for the three and six months ended February 29, 2008 was \$1,902 and \$3,160.3 up from \$903.7 and \$1,254.1 for the same periods a year ago. The Gallivan acquisition contributed to the significant increase for the quarter and six months ended February 29, 2008 by \$843.9 and \$1,656.7 respectively. Excluding the impact of the Gallivan acquisition, revenue was up \$154.4 in the quarter over last year due mainly to increases in renewals and new business, \$69.0, the conversion of a client from fee based to commissions, \$41.8, and bonuses not previously recognized, \$27.9. For the six months ended February 29, 2008, revenue, excluding the Gallivan acquisition, is up \$249.5 for the same period a year ago due mainly to, new business of \$89.6, and the conversion of one client from a fee based contract to commissions, \$101.8. A further \$58.1 of the increase resulted from bonuses earned from insurance carriers that was accrued to the previous owners in fiscal 2007 and adjusted to the purchase price but now earned by the company. During the second quarter, there was one new client added and none cancelled. For the six months ended, two new clients were added and one client account lost. The impact on revenue from the net addition was negligible. Annualized organic growth experienced in the second quarter and six months ended February 29, 2008, on the existing base, excluding Gallivan, was approximately 7.6% and 7.1% respectively.

Salaries, Commissions and Benefits Expenses

Salaries, benefits and commissions for the three and six months ended February 29, 2008 were \$890.2 and \$1,798.1 up from \$451.8 and \$859.9 respectively for the same periods a year ago. Approximately \$370.7 in the quarter and \$760.6 year to date of the increases are due to the acquisition of Gallivan. Similarly, a further \$67.8 of the increase relates to three additional employees in the second quarter of fiscal 2008 over 2007 and salary increases of about 3%. The Investor Relations and Business Development, Manager, Corporate Controller and two sales positions were added after the second quarter in fiscal 2007. Approximately \$13.3 of the increase was on the account of commissions and \$22.4 of higher commission

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expense year-to-date. The first six months of fiscal 2008 also included an increase in stock-based compensation of \$13 to \$72 from \$59 for the same period in fiscal 2007.

Other Operating Expenses

Other operating expenses for the second quarter and six months ended February 29, 2008 were \$440.9 and \$828.7 versus \$176.6 and \$342.2 for the same periods a year ago. This is significantly above the previous year mainly due to the consolidation of Gallivan and increased first half activity. Of the \$264.3 increase in the second quarter over last year at the same time, Gallivan represents \$161.5 and the remaining \$102.8 is made up of additional head office costs including new facility lease costs of \$36.0 and accounting, legal, insurance, consulting and other public company costs of \$66.8. Similarly for the six months ended February 29, 2008, of the \$486.5 year to date increase over last year, \$310.7 is due to the Gallivan expenses that were not there last year, and the balance of \$175.8 is due mainly to the additional head office costs noted above.

Interest Expense

Interest expense for the second quarter and six months ended February 29, 2008 were \$61.1 and \$99.8 compared to \$85.9 in the second quarter of fiscal 2007 and \$186.8 for the same six month period in fiscal 2007. The decrease of approximately \$24.8 in the quarter is due mainly to a decrease of \$38.1 of lower accretive interest charges (non cash) on the vendor take-back debt related to the Combined Investment Guild and Buffett, Taylor acquisitions, the elimination of \$25.0 of interest due to the repayment of \$1 million of short term debt, offset by higher vendor take back debt interest accrued as a result of the Gallivan acquisition. Similarly, for the six months ended February 29, 2008, the interest expense is down \$87.0 due to lower accretive interest on the vendor take back debt offset by higher accrued interest as a result of the Gallivan acquisition, and the elimination of \$50.0 of interest on \$ 1 million of short term debt that was outstanding during the same period a year ago.

Depreciation and Amortization

Depreciation and amortization for the second quarter and six months ended February 29, 2008 was \$160.7 and \$321.3 respectively. This includes \$133.1 of amortization per quarter for intangibles, \$22.6 for capital asset depreciation per quarter and \$5.0 of acquisition fee amortization per quarter. The charge has doubled both in the quarter and year to date reflecting the full impact of the Gallivan acquisition.

Income Tax Expense

For the quarter ended February 29, 2008 the current income tax expense is \$182.4 and \$145.8 for the six months to date. This compares to \$32.6 for the second quarter in fiscal 2007 and a recovery of \$54.8 for the same six months ended a year ago. The decrease in the recovery is due mainly to the addition of net income from the Gallivan acquisition. The future tax recovery of \$47.1 in the quarter and \$94.1 for the six months ended February 29, 2008 also reflects the impact of the Gallivan acquired intangibles.

Net Income

As a result of the revenue and expenses described above, the net income for the second quarter more than doubled to \$217.2 up from \$107.4 for the same period a year ago. For the six months ended February 29, 2008, the net income is \$64.5 up from a loss of \$193.8 during the same period in fiscal 2007. This is consistent with the seasonal nature of the operations, the change in the capital structure of the combined company and resulting interest and amortization charges.

LIQUIDITY AND CAPITAL RESOURCES

For the second quarter ended February 29, 2008, cash generated by operating activities was \$459.1, up from \$238.8 for the same period a year ago. This is due mainly to the improvement in EBITDA over the

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same period last year. For the six months ended February 29, 2008, however, cash utilized in operations was \$185.9 as opposed to \$31.6 that was generated over the same six month period in 2007. The improvement in cash from higher earnings was offset by working capital requirements. The increased utilization was mainly due to \$509.5 of accrued bonuses being paid to the former owners of Gallivan. The working capital left behind in Gallivan was sufficient to meet this obligation and fund other working capital needs. Except for the Gallivan bonus payment, the cash used in the first half is consistent with the seasonal nature of the revenues.

There were no acquisitions in the second quarter or year-to-date although an adjustment of \$42.3 was made to the purchase price of the Investment Guild and corresponding vendor take back amount as described below. Capital spending was negligible as were residual trailing acquisition fees.

The Company's financing activities in the quarter and year to date included settling the first year structured payment on the Vendor take back amount for the Investment Guild and Buffett, Taylor acquisitions. On February 15, 2008 the Company paid \$300 in cash relating to the first anniversary payment due on the Investment Guild purchase, offset by \$139.7 owed by the vendors, and adjusted (increased) the vendor take back amount by \$42.3 to appropriately reflect the performance adjustment that had previously accrued at August 31, 2007. On December 3, 2007, the first anniversary payment due on the Vendor take back loan relating to the purchase of Buffett, Taylor Inc. was settled but recorded in the financial statements on August 31, 2007. The remainder of the first anniversary payment of \$351.0, included in long term debt was settled with an offset of amounts receivable from Buffett Taylor Ltd., a cash payment of \$220.0 and the issuance of 100,776 common shares at \$0.51 per share.

The Company also utilized \$ 44.5 of cash to reduce long term vendor take-back debt by \$34.2 and bank indebtedness by \$10.3 in the first half of fiscal 2008. In comparison, the Company's financing activities in the first half of fiscal 2007 consisted mainly of acquisition stock issuance \$800, short term debt, \$ 1 million and vendor take-back financing of \$3.4 million.

At February 29, 2008 acquisition debt after discounting and purchase price adjustments, is \$2,965.1 and down \$592.1 from the year-end balance at August 31, 2007. This reflects the settlement of both the Investment Guild and Buffett, Taylor first year Vendor take back amounts as outlined above. Approximately \$685.3 was extinguished and offset by a purchase price adjustment of \$42.3 and accretion of \$47.9 of interest expense.

Future expected payments are as follows:

	Total	Payments due by period		
		2008	2009 to 2012	Beyond 2012
Short term portion	\$ 1,688.4	\$ 731.8	\$ 956.6	\$ -
Long term debt	1,267.6	-	1,267.6	-
Operating leases	1,670.8	290.6	964.8	415.4
	\$ 4,626.8	\$ 1,022.4	\$ 3,189.0	\$ 415.4

The Company will utilize cash on hand and cash from on-going business to finance its operations for balance of the fiscal year and make vendor take-back debt principal payments through the fourth quarter. The Company will continue to pursue its acquisition strategy and management will assess the need for debt and equity financing to satisfy both cash required at closing and acquisition costs as the need arises.

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SEASONALITY

The business of the Company in 2008 is expected to generate, without the impact of additional acquisitions, a higher number of renewals and consequently more revenues during the second and third quarters. During the year, it is estimated that on a consolidated basis, approximately 23% of the revenue of the Company will be earned (excluding further acquisitions) from an industry involving retail, wholesale distribution and production clientele that consists of over 300 independent companies. The majority of the revenue earned from that industry clientele results in increased revenues in the third quarter.

RELATED PARTY TRANSACTIONS

During the three and six month period ended February 29, 2008 the Company had significant activity with shareholders and directors 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:

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
Revenue (i)	\$ 18	\$ 48	\$ 10	\$ 23
Expenses				
Salaries, wages & benefits (ii)	\$ 71	\$ 182	\$ 87	\$ 145
Commissions (iii)	81	129	73	112
General and administrative (iv)	48	56	-	-
Interest expense (v)	34	67	27	55
Accounts receivable (i)	\$ 22	\$ 22	\$ 7	\$ 7
Commission advances (iii)	53	53	110	110
Accounts payable & accrued liabilities(vi)	65	65	25	25
Current portion of long term debt (vii)	1,155	1,155	402	402
Long term debt (vii)	769	769	1,159	1,159

- (i) Revenue is earned from a client that has two directors and shareholders who are also directors and shareholders of the Company.
- (ii) Salaries, wages and benefits paid to the Chief Executive Officer who is both a shareholder and director of the Company, and to the President of a subsidiary who is an officer and shareholder of the Company.
- (iii) Commission payments totaling \$74.4 were made during the quarter (Fiscal 2007 - \$111.4) to Directors of the Company who are also employees, of which \$105.3 (Fiscal 2007 - \$72.1) is owed to the Company and included in commission advances in the financial statements.
- (iv) Consulting fees are paid to a vendor that has two directors and shareholders who are also directors and shareholders of the Company.
- (v) Cash interest payments of \$5.9 (Fiscal 2007 - \$14.7) were made to certain directors and shareholders of the Company. Accretive interest of \$ 6.5 (Fiscal 2007 - \$12.7) (included in the long term loan balance) also accrued to these individuals during the quarter. Interest of \$21.4 (Fiscal 2007 - nil) on the vendor take back loan was accrued to the benefit of the President of a subsidiary who is an officer and shareholder of the Company.
- (vi) Represents post closing working capital adjustments to be repaid by the former owners who are

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also directors and shareholders of the Company.

(vii) Represents \$21.4 (Fiscal 2007 - nil) of accrued interest on the vendor take back loan payable to the President of a subsidiary who is an officer and shareholder of the Company and \$8.4 (Fiscal 2007 - nil) of consulting fees payable to a vendor that has two directors and shareholders who are also directors and shareholders of the Company.

(viii) Represents vendor take back debt on acquisitions owed to certain directors and shareholders of the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported values of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Accordingly, actual results could differ from these estimates. The accounting policies and estimates that are critical to the Company's business relate to:

Revenue recognition

The Company earns commission revenue as payment for the provision of benefits consulting services to clients, as a percentage of insurance premiums paid by our clients. Commission revenue is received annually, semi-annually, quarterly or monthly. Annual fees are typically paid at the beginning of the insurance policy period and are recognized as income at the later of the billing or effective date of the policy, net of a provision for return commissions due to policy cancellations.

The Company also earns fee-for-service revenue based on hourly rates and the time spent delivering those services. The Company may earn contracted revenue based on negotiated fixed amounts, rather than the time spent. Revenue is recognized in the period that the service is rendered, irrespective of when it is invoiced. Unbilled fees are recorded at the lower of unbilled hours worked at standard billing rates and the amount which management estimates can be recovered upon invoicing. Expenses are recognized as incurred. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third party professional services. Reimbursements are accounted for as a reduction to expenses.

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.

Allowance for doubtful accounts

A provision for accounts receivable resulting from the potential risk that the receivable will not be collected has been recorded. Management continually monitors past due accounts to assess the likelihood of collection to estimate the required provision.

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Future income tax

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Groupworks' financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities whose carrying values approximate fair values due to their short-term nature. The Company is not engaged in hedging activities and does not own other instruments that may be settled by the delivery of non-financial assets. In management's view, the Company is not exposed to significant interest or credit risks arising from financial instruments.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial condition of the Company 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 as outlined below.

Specialized Skill and Knowledge

The group insurance business requires considerable expertise and experience including an understanding of benefits plan design, legislative issues and parameters, provincial medicare programs, human resource matters, payroll, tax matters, financial products, financial planning, underwriting and costing of insurance products, relationships and credibility with insurance carriers/suppliers, licensing, and the ability to generate and maintain relationships with clients and prospective clients.

The Company requires a specialized group of individuals with extensive group insurance experience both from the carrier and brokerage perspectives as well as experience in mergers and acquisitions. In this regard, the Company currently has a number of well experienced employees possessing an average of approximately 14 years of industry experience, and holding various professional designations including CEBS, CLU and CFP designations. However, individuals with extensive group insurance experience are scarce, and in the event that the Company is unable to attract or retain such employees, it may have a material adverse effect on the business of the Company.

Seasonality

The business of the Company is seasonal as it generally experiences decreased revenues during the late summer, primarily due to vacation schedules and a generally lower level of business activity during such time period. Accordingly, plan anniversaries generally occur at other times during the year.

Regulation

Licensing is required under the laws of the Province of Ontario in order to carry on the business of insurance within the province. The Financial Services Commission of Ontario ("FSCO") is the self-regulatory body which provides a variety of licensing and registration services to stakeholders in the insurance sector in Ontario. In this regard, FSCO has established the Life License Qualification Program (LLQP), which is a self-study program designed to be recognized as a common standard for life, health and travel insurance advisors.

In addition, individuals engaged in the insurance advisory industry may opt to pursue a variety of additional professional qualifications, such as (i) the Chartered Life Underwriter (CLU) designation, specializing in the areas of income replacement, risk management, estate planning, and wealth transfer; (ii)

GROUPWORKS FINANCIAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

the Certified Financial Planner (CFP) designation, concerning personal financial planning, investment products and investing strategies; and (iii) the Certified Employee Benefits Specialist (CEBS) designation. These designations as well as others are granted by independent governing bodies such as the Financial Planners Standards Council, the Financial Advisors Association of Canada and The International Foundation, and are independently regulated by such bodies.

In addition, 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.

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. The Company does, however, generate approximately 60% of its revenues on contracts for services which extend for three to seven years. The advisor/consultant acts as a paid intermediary during this renewal process and throughout the year. Advisors are paid for their services as earned or are paid in advance from time to time. In the event that a contract is terminated by a client and the advisor has been paid in advance for the year, then the advisor will rebate the amount paid but not earned to the insurance company.

In addition, renewal negotiations have historically resulted in increased premiums or decreased benefit coverage, or a combination thereof. The majority of the contracts negotiated have a commission based structure that is related to the premium payable pursuant to the contract in question. Accordingly, sales commissions may increase in the ensuing year based upon any increases in contract premiums payable, although the extent of such increases in sales commissions may be curtailed by the use of grading commission structures which do not necessarily increase in tandem with premiums.

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

OUTLOOK

Management believes that the Company's ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures and working capital. Our active acquisition strategy will, however, require the Company to seek additional debt and equity financing during fiscal 2008. The Company's future needs may, however, change, and in such event the Company's ability to satisfy its obligations will be dependent upon its future financial performance, which in turn will be subject to a number of risks and uncertainties, including elements beyond the Company's control. See "Risks and Uncertainties" as outlined above.

ADDITIONAL INFORMATION

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

GROUPWORKS FINANCIAL CORP.

Consolidated Balance Sheet

At February 29, 2008

	February 29, 2008	February 28, 2007	August 31, 2007
ASSETS			
CURRENT			
Cash	\$ 321,050	\$ -	\$ 1,149,637
Accounts receivable	785,428	474,530	917,762
Due from related parties	-	-	139,686
Income taxes recoverable	-	74,111	-
Commission advances (note 11)	65,645	110,391	78,721
Prepaid expenses and other	40,068	-	51,776
	<u>1,212,191</u>	<u>659,032</u>	<u>2,337,582</u>
DEFERRED ACQUISITION COSTS (note 3)	174,468	338,357	181,704
CAPITAL ASSETS (note 4)	722,181	1,152,206	755,460
FUTURE INCOME TAXES (note 14)	226,334	-	226,334
INTANGIBLE ASSETS (note 5)	4,776,250	2,208,750	5,042,500
GOODWILL (notes 1 and 5)	6,825,926	2,988,810	6,783,648
	<u>\$ 13,937,350</u>	<u>\$ 7,347,155</u>	<u>\$ 15,327,228</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT			
Bank indebtedness (note 6)	\$ 31,399	\$ 78,406	\$ 25,733
Accounts payable and accrued liabilities	784,848	605,130	1,534,156
Deferred revenue	471,361	-	692,292
Income taxes payable	148,124	-	98,774
Current portion of long term debt (note 13)	1,688,442	1,050,789	1,371,891
Short term debt	-	1,000,000	-
	<u>3,124,174</u>	<u>2,734,325</u>	<u>3,722,846</u>
DEFERRED RENT LIABILITY	44,401	-	17,761
LONG-TERM DEBT (note 13)	1,267,611	2,331,598	2,176,238
FUTURE INCOME TAXES (note 14)	1,848,080	846,810	1,942,201
	<u>6,284,266</u>	<u>5,912,733</u>	<u>7,859,046</u>
SHAREHOLDERS' EQUITY			
Share capital (note 9(a) (b))	7,835,476	1,595,000	7,784,080
Contributed surplus (note 10)	195,433	58,958	124,070
Deficit	(377,825)	(219,536)	(439,968)
	<u>7,653,084</u>	<u>1,434,422</u>	<u>7,468,182</u>
	<u>\$ 13,937,350</u>	<u>\$ 7,347,155</u>	<u>\$ 15,327,228</u>

TRUST ACCOUNTS (note 8)

COMMITMENTS AND CONTINGENCIES (note 15)

SUBSEQUENT EVENT (note 18)

ON BEHALF OF THE BOARD OF DIRECTORS

"Sean Cleary"

Sean Cleary, Chairman of the Board

"Michael Thomas"

Michael Thomas, Director

The accompanying notes are an integral part of these consolidated financial statements.

GROUPWORKS FINANCIAL CORP.
Consolidated Statement of Income (Loss) and Deficit
For The Second Quarter and Six Months Ended February 29, 2008

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
REVENUE				
Commissions	\$ 1,297,919	\$ 1,677,517	\$ 810,028	\$ 1,097,791
Fees	590,706	1,462,420	89,848	141,348
Other	13,368	20,377	3,800	14,995
	1,901,993	3,160,314	903,676	1,254,134
EXPENSES				
Salaries and benefits <i>(notes 10 and 11)</i>	803,430	1,662,907	378,340	747,148
Commissions <i>(note 11)</i>	86,807	135,213	73,499	112,770
General and administrative	339,301	623,192	128,343	249,254
Advertising and promotion	101,630	205,470	48,214	92,887
	1,331,168	2,626,782	628,396	1,202,059
INCOME BEFORE UNDERNOTED ITEMS	570,825	533,532	275,280	52,075
OTHER EXPENSES				
Interest expense <i>(note 13)</i>	(61,138)	(99,813)	(85,953)	(186,781)
Depreciation of capital assets <i>(note 4)</i>	(22,618)	(45,066)	(7,697)	(15,201)
Amortization of intangible assets <i>(note 5)</i>	(133,125)	(266,250)	(58,125)	(116,250)
Amortization of deferred costs <i>(note 3)</i>	(4,966)	(9,931)	(3,322)	(5,644)
	(221,847)	(421,060)	(155,097)	(323,876)
INCOME (LOSS) BEFORE INCOME TAXES	348,978	112,472	120,183	(271,801)
INCOME TAXES (RECOVERED)				
Current <i>(note 14)</i>	181,104	144,450	32,593	(54,779)
Future <i>(note 14)</i>	(47,036)	(94,121)	(19,777)	(23,240)
	134,068	50,329	12,816	(78,019)
NET INCOME (LOSS)	214,910	62,143	107,367	(193,782)
DEFICIT - BEGINNING OF PERIOD	(592,735)	(439,968)	(326,903)	(25,754)
DEFICIT - END OF PERIOD	\$ (377,825)	\$ (377,825)	\$ (219,536)	\$ (219,536)
Earnings (loss) per share – basic	\$ 0.014	\$ 0.004	\$ 0.018	\$ (0.034)
Earnings (loss) per share – fully diluted	\$ 0.010	\$ 0.003	\$ 0.015	\$ (0.027)

The accompanying notes are an integral part of these consolidated financial statements.

GROUPWORKS FINANCIAL CORP.
Consolidated Statement of Cash Flow
For The Second Quarter and Six Months Ended February 29, 2008

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
OPERATING ACTIVITIES				
Net income (loss)	\$ 214,910	\$ 62,143	\$ 107,367	\$ (193,782)
Items not affecting cash:				
Depreciation of capital assets	22,618	45,066	7,697	15,201
Amortization of intangible assets	133,125	266,250	58,125	116,250
Amortization of deferred costs	4,966	9,931	3,322	5,643
Amortization of interest	35,294	50,914	49,519	114,353
Future income taxes	(47,036)	(94,121)	(19,777)	(23,240)
Stock-based compensation expense	8,764	71,363	-	59,458
	372,641	411,546	206,253	93,883
Changes in non-cash working capital:				
Accounts receivable	(109,124)	132,334	(215,253)	(258,735)
Due from related parties	139,686	139,686	-	-
Commission advances	50,655	13,076	(38,303)	(110,391)
Accounts payable and accrued liabilities	(70,329)	(749,308)	269,385	370,257
Deferred revenue	(76,791)	(220,931)	-	-
Deferred rent liability	(2,664)	26,640	-	-
Income taxes recoverable	7,103	-	-	(74,111)
Income taxes payable	148,124	49,350	16,758	-
Prepaid expenses	(253)	11,708	-	10,695
	86,407	(597,445)	32,587	(62,285)
Cash flow provided (used) by operating activities	459,048	(185,899)	238,840	31,598
INVESTING ACTIVITIES				
Purchase of capital assets	(6,047)	(11,787)	(5,096)	(9,215)
Deposit for acquisition	-	-	-	50,000
Acquisitions	(42,278)	(42,278)	-	(5,678,933)
Deferred financing fees	-	-	(154,395)	(207,295)
Acquisition fees	-	(2,696)	(53,860)	(146,705)
Cash flow used by investing activities	(48,325)	(56,761)	(213,351)	(5,992,148)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	10,813	5,666	(17,153)	14,931
Short term debt	-	-	-	1,000,000
Proceeds from long-term debt	42,278	42,278	-	3,398,933
Repayment of long-term debt	(668,302)	(685,267)	(8,336)	(16,546)
Common stock issued	51,396	51,396	-	800,000
Contributed surplus	-	-	-	(500)
Cash flow provided (used) by financing activities	(563,815)	(585,927)	(25,489)	5,196,818
INCREASE (DECREASE) IN CASH FLOW	(153,092)	(828,587)	-	(763,732)
Cash - beginning of period	474,142	1,149,637	-	763,732
CASH - END OF PERIOD	\$ 321,050	\$ 321,050	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

1. BASIS OF PRESENTATION

Groupworks Financial Corp. ["Groupworks"] was incorporated under the Ontario Business Corporations Act on July 5, 2006 and is a professional services firm that provides advice and implementation services in the area of corporate benefits and pension plans.

On September 1, 2006 Groupworks, the "Company" purchased all of the shares of The Combined Investment Guild Insurance Agency Inc. ("Investment Guild") and Buffett, Taylor & Associates Insurance Agencies Inc. ("Buffett, Taylor"). On May 1, 2007 the Investment Guild and Buffett, Taylor were amalgamated with Groupworks and continued under the Ontario Business Corporations Act as Groupworks Financial Corp. On July 5, 2007, Groupworks purchased all the shares of Gallivan & Associates Student Networks Inc. ("Gallivan") by purchasing all the shares of 1246689 Ontario Limited ("124") which owns 80% of the common voting shares of Gallivan and the remaining 20% was purchased from a third party. The results of operations and financial position of Gallivan and 124 have been consolidated with those of Groupworks effective July 1, 2007.

The comparative figures for Fiscal 2007 represent the financial position and results for the quarter ended February 28, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, reflect the accounting policies set out below.

Revenue recognition

Commissions are recognized when earned at the effective or renewal date of the policy, net of provision for return commissions due to policy cancellation and adjustments. The provision is determined by management based on historical data. Fee or contracted revenue is recognized in the period it is earned, net of a provision for non recoverable amounts.

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:

Computer software	4 years straight line
Computer equipment	30% diminishing balance
Furniture and fixtures	20% diminishing balance
Leasehold improvements	straight line over the term of the lease
Building	4% diminishing balance

Deferred costs

The cost incurred in the acquisition of assets or operations are deferred and amortized over the same period as intangibles acquired. The cost of obtaining short and long-term debt is deferred and amortized on a straight line basis over the term of the debt to which they relate.

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

Intangible assets

Intangible assets with a finite life are recorded at cost and are amortized on a straight line basis over the period of expected future benefit. Customer relationships and contracts are amortized on a straight line basis over 10 years.

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, 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 discounted 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.

Long-lived assets

Long-lived assets comprise capital assets and intangible assets subject to amortization. Long-lived assets are reviewed annually for impairment 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.

Income taxes

The 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 the assets will be realized.

Stock-based compensation

Groupworks has a stock-based compensation plan which is described in note 10. Any consideration paid by employees upon the exercise of any stock options increases share capital. Groupworks does not repurchase stock options once granted.

Compensation costs attributable to all stock options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses recognized for the period reported. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results may differ from these estimates.

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

3. DEFERRED ACQUISITION COSTS

	Cost	Accumulated amortization	February 29, 2008 Net book value	February 28, 2007 Net book value	August 31, 2007 Net book value
Deferred acquisition costs	\$ 198,572	\$ 24,104	\$ 174,468	\$ 338,357	\$ 181,704

4. CAPITAL ASSETS

	Cost	Accumulated amortization	February 29, 2008 Net book value	February 28, 2007 Net book value	August 31, 2007 Net book value
Computer software	\$ 32,832	\$ 7,307	\$ 25,525	\$ 64,538	\$ 25,707
Computer equipment	105,076	23,752	81,324	23,366	89,261
Furniture and fixtures	159,720	27,756	131,964	25,426	144,871
Leasehold improvements	52,754	8,426	44,328	-	47,621
Building	457,143	18,103	439,040	1,038,876	448,000
	\$ 807,525	\$ 85,344	\$ 722,181	\$ 1,152,206	\$ 755,460

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

5. INTANGIBLE ASSETS

	Cost	Accumulated amortization	February 29, 2008 Net book value	February 28, 2007 Net book value	August 31, 2007 Net book value
Customer relationships	\$ 2,325,000	\$ 348,750	\$ 1,976,250	\$ 2,208,750	\$ 2,092,500
Customer contracts	3,000,000	200,000	2,800,000	-	2,950,000
	\$ 5,325,000	\$ 548,750	\$ 4,776,250	\$ 2,208,750	\$ 5,042,500

Cost represents fair value of intangible assets acquired with each entity purchased. Intangible assets' amortization is not deductible for tax purposes.

	February 29, 2008 Net book value	February 28, 2007 Net book value	August 31, 2007 Net book value
Goodwill, beginning of period	\$ 6,783,648	\$ -	\$ -
Acquisitions		2,988,810	7,167,889
Adjustment to Purchase Price	42,278	-	(384,241)
Goodwill, end of period	\$ 6,825,926	\$ 2,988,810	\$ 6,783,648

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

6. BANK INDEBTEDNESS

Groupworks' banking facility provided for four distinct lines of credit.

A maximum \$100,000 operating line of credit which bears interest at prime plus 0.5% with no specific repayment terms. As at February 29, 2008, the outstanding balance is \$15,960.

A maximum \$250,000 real estate credit facility which is secured by Groupworks' real estate assets. The facility is a diminishing (non-revolving) line of credit with no further ability to draw on, no scheduled principal payments and interest due monthly. Interest is charged at prime plus 1%. As at February 29, 2008 there is no outstanding balance.

A maximum \$250,000 operating line of credit which bears interest at prime plus 0.75% with no specific repayment terms. As at February 29, 2008, there is no outstanding balance.

A maximum \$100,000 small business loan bearing interest at prime plus 0.75% repayable in monthly principal installments of \$1,715.51 plus interest, due November 2008. As at February 29, 2008 the balance outstanding is \$15,439.

The various debt facilities are secured by first collateral position over real estate assets held by Groupworks and Gallivan and a general security agreement over Groupworks' and Gallivan's assets.

7. SHORT TERM DEBT

The \$1,000,000 demand loan was issued September 1, 2006 and was repaid May 28, 2007 and bore interest at 8%.

8. INSURANCE PREMIUM LIABILITIES AND RELATED CASH OR CASH EQUIVALENTS

In its capacity as consultants, 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 trust accounts and, as such, the cash and investment balances relating to these liabilities are deducted from the related liability and not included in the consolidated balance sheet of the Company.

As at February 29, 2008, the insurance premium liabilities are:

Payable to insurance companies	\$	1,055,281
Less related cash or cash equivalents		1,055,281
	\$	-

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

9. SHARE CAPITAL AND WARRANTS

(a) SHARE CAPITAL

Authorized: Unlimited common voting shares

	Number	Price/ Average Price	February 29, 2008 Net Amount	February 29, 2007 Net Amount	August 31, 2007 Net Amount
Opening balance issued and outstanding	15,731,155	\$ 0.49	\$ 7,784,080	\$ 795,000	\$ 795,000
Issued during the year:					
Initial Public Offering					4,140,000
Acquisition of The Investment Guild				800,000	800,000
Acquisition of Gallivan					2,443,590
Warrant Options exercised					51,000
Debt for share exchange (i)	100,776	\$ 0.51	51,396		
Total issued during the period	100,776		\$ 51,396	\$ 800,000	\$7,434,590
Add: Warrant options cost					15,316
Less: Units issue costs, net of future taxes					(460,826)
Ending balance issued and outstanding	15,831,931	\$ 0.49	\$ 7,835,476	\$1,595,000	\$ 7,784,080

(i) On December 3, 2007, 100,776 common shares at \$0.51 per share were issued to settle a portion of the vendor take back loan relating to the purchase of Buffett, Taylor.

(b) WARRANTS

	February 29, 2008		February 28, 2007		August 31, 2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of period	3,891,000	\$ 0.95	-	\$ -	-	\$ -
Granted with initial public offering and overallotment	-		-		3,450,000	1.00
Granted to Agent as compensation for initial public offering	-		-		441,000	0.60
Granted for short-term debt	-		85,000	0.60	85,000	0.60
	3,891,000		85,000		3,976,000	
Warrant options exercised					(85,000)	0.60
Outstanding at end of period	3,891,000	\$ 0.95	85,000	\$ 0.60	3,891,000	\$ 0.95

Each Unit issued (6,300,000 – initial public offering and 600,000 – over-allotment) as part of the initial public offering consisted of one common share of Groupworks and one-half of one share purchase warrant of Groupworks (each whole such purchase warrant, a “Warrant”). Each Warrant entitles the holder thereof to acquire, subject to adjustments pursuant to the warrant indenture under which the Warrants have 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

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

trade exceeds \$1.20 for 20 consecutive trading days, then the Warrant term shall automatically be reduced and the Warrants will expire on the date 30 days following the issuance of a press release announcing the reduced Warrant term.

Pursuant to the Agency Agreement, the Agent received Compensation Warrants entitling the Agent to purchase such number of Common Shares equal to 7% of 6,300,000 units sold during the initial public offering and an additional 42,000 upon exercising the over-allotment option both at a price of \$0.60 per Common Share for a period of 24 months from the date of such issuance (May 27, 2009 and June 6, 2009, respectively).

As partial consideration for the Demand Loan, Groupworks issued to the lender 85,000 share purchase warrants (note 7), each entitling the holder to acquire one Common Share at an exercise price of \$0.60 until September 1, 2007. The warrant option was exercised on August 31, 2007. \$15,316 was recognized in the books of the Company as interest expense with a corresponding increase in contributed surplus when granted. The amount was transferred to share capital on August 31, 2007 when the warrant options were exercised.

10. STOCK BASED COMPENSATION

On September 1, 2006 Groupworks adopted a stock option plan to reserve a maximum of 2,000,000 common shares for options to be granted to directors, officers, employees and service providers of Groupworks on terms that the directors of Groupworks may determine within the limitations set forth in the Stock Option Plan or by security regulators. The stock options are vested as to 25% at the date of the grant and 25% every six months thereafter.

On January 4, 2008, at the Annual Special Meeting of the Shareholders, the shareholders approved an amendment to the stock option plan, reducing the maximum common shares reserved for issuance from 2,000,000 common shares to 1,573,115 common shares, being 10% of the presently issued and outstanding common share capital of the Company. Under the plan, the number of common shares reserved for issuance in aggregate shall not exceed 10% of the total number of issued and outstanding common shares on a non-dilutive basis.

Options granted, outstanding and exercisable are as follows: (no options were exercised in the period)

	Date	Expiry date	Number of Options	Weighted average exercise price	Weighted average remaining contractual life (years)	Options exercisable
Opening balance – September 1, 2007			1,400,000	\$ 0.60	3.40	680,000
Vested in the period						350,000
Granted in fiscal 2008:						
	18-Sep-07	17-Sep-12	75,000	\$ 0.67	4.55	18,750
	28-Feb-08	27-Feb-13	75,000	\$ 0.38	5.00	18,750
Ending balance			1,550,000	\$ 0.59	3.86	1,067,500

GROUPWORKS FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SECOND QUARTER AND SIX MONTHS ENDED FEBRUARY 29, 2008

Groupworks 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.

During the quarter ended November 30, 2007, the Company approved a total of 75,000 options to purchase common shares of the Company to a director of which 18,750 have vested resulting in a stock-based compensation expense of \$3,141. During the quarter ended February 29, 2008, the Company approved a total of 75,000 options to purchase common shares of the Company to a director of which 18,750 have vested resulting in a stock-based compensation expense of \$3,610. During the period, a further 350,000 options vested resulting in stock-based compensation expense of \$64,612 for a total of \$71,363, with a corresponding increase in contributed surplus, which will be transferred to share capital when the options are exercised.

	February 29, 2008	February 28, 2007	August 31, 2007
Risk-free interest rate	4.16%	4.20%	4.21%
Dividend yield	0.00%	0.00%	0.00%
Volatility factor of expect market price of the Company's shares	24.28%	24.00%	24.98%
Weighted average value of options granted during the year	\$ 0.1837	\$ 0.18	\$ 0.1846

11. RELATED PARTY TRANSACTIONS

In addition to transactions disclosed elsewhere in the financial statements, the financial statements include the following transactions and balances with directors and officers or shareholders. All transactions are in the normal course of operations and are measured at the exchange amount, which is the consideration amount agreed to by the parties:

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
Revenue (i)	\$ 17,630	\$ 48,293	\$ 10,338	22,667
Expenses				
Salaries, wages & benefits (ii)	\$ 71,132	\$ 182,281	\$ 86,923	\$ 145,256
Commissions (iii)	80,944	128,604	73,057	112,328
General and administrative (iv)	47,554	56,022	-	-
Interest expense (v)	33,577	67,448	27,232	54,591
Accounts receivable (i)	\$ 21,968	\$ 21,968	\$ 6,788	6,788
Commission advances (iii)	52,509	52,509	110,391	110,391
Accounts payable & accrued liabilities (vi)	65,485	65,485	25,312	25,312
Current portion of long term debt (vii)	1,155,424	1,155,424	402,387	402,387
Long term debt (vii)	769,465	769,465	1,159,274	1,159,274

- (i) Revenue is earned from a client that has two directors and shareholders who are also directors and shareholders of the Company.
- (ii) Salaries, wages and benefits paid to the Chief Executive Officer who is both a shareholder and director of the Company and to the President of a subsidiary who is an officer and shareholder of the Company.
- (iii) Commission payments totaling \$102,391 were made during the period (Fiscal 2007 - \$222,720) to Directors of the Company who are also employees, of which \$52,509 (Fiscal 2007 -

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\$110,391) is owed to the Company and included in commission advances in the financial statements.

- (iv) Consulting fees are paid to a vendor that has two directors and shareholders who are also directors and shareholders of the Company. Consulting fees are also paid to the former CEO, who is a director.
- (v) Cash interest payments of \$11,601 (Fiscal 2007 - \$29,279) were made to certain directors and shareholders of the Company. Accretive interest of \$ 13,084 (Fiscal 2007 - \$25,312) (included in the long term loan balance) also accrued to these individuals during the quarter. Interest of \$42,763 (Fiscal 2007 - nil) on the vendor take back loan was accrued to the benefit of the President of a subsidiary who is an officer and shareholder of the Company.
- (vi) Represents \$57,017 (Fiscal 2007 - nil) of accrued interest on the vendor take back loan payable to an officer of the Company who is also a shareholder and \$8,468 (Fiscal 2007 - nil) of consulting fees payable to a vendor that has two directors and shareholders who are also directors and shareholders of the Company.
- (vii) Represents vendor take back debt on acquisitions (note 13) owed to certain directors and shareholders of the Company.

12. FINANCIAL INSTRUMENTS

Fair Value

Groupworks' 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 Groupworks for debt with similar terms (non-interest bearing as stated in note 14).

Business Risks

Credit risk arises from the potential that a counter party will fail to perform its obligations. Groupworks is exposed to credit risk from customers. In order to reduce its credit risk, Groupworks 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. Groupworks has a significant number of customers which minimizes concentration of credit risk.

It is management's opinion that Groupworks is not exposed to significant interest and currency risk arising from these financial instruments.

13. LONG-TERM DEBT

	February 29, 2008	February 28, 2007	August 31, 2007
Vendor take back loan bearing interest at 7% per annum, and amortized over 15 years. The loan matures on September 1, 2021 and is secured by assets of Groupworks and is subordinated to the bank indebtedness. This amount is due to shareholders and employees of Groupworks.	\$ 316,176	\$ 838,454	\$ 350,401

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Vendor take back loan bearing no interest per annum, with one remaining installment of \$400,000. The loan matures on September 1, 2008 and is secured by the assets of The Combined Investment Guild. The loan has been discounted by 7% to arrive at the fair value which is the present value of the future cash flows. This amount is due to shareholders and employees of Groupworks. The loan is subject to adjustments related to specific performance measures of the acquired business.

386,916 723,207 628,594

Vendor take back loan bearing no interest per annum, with two remaining equal installments of \$551,043. The loan matures on September 1, 2009 and is guaranteed by The Combined Investment Guild. The loan has been discounted by 7% to arrive at the fair value which is the present value of the future cash flows. Groupworks has the option to settle up to \$551,043 of the remaining balance of the loan by issuing common shares at a value equal to their fair market value at the time of each installment payment. The loan is subject to adjustments related to specific performance measures of the acquired business.

1,031,165 1,820,726 1,347,338

Vendor take back loan bearing interest of 7% per annum, repayable in two installments due July 5, 2008 and July 5, 2009. The loan is secured by the assets of Gallivan & Associates Student Networks Inc. This amount is due to shareholders of Groupworks. The loan is subject to adjustments related to specific performance measures of the acquired business.

1,221,796 - 1,221,796

2,956,053 3,382,387 3,548,129

Less current portion

1,688,442 1,050,789 1,371,891

Long term debt

\$ 1,267,611 \$ 2,331,598 \$ 2,176,238

Principal repayment terms are approximately:

2008	\$	731,846
2009		1,519,914
2010		578,069
2011		85,615
2012		40,609

\$ 2,956,053

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Interest expense in the period consists of the following:

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
Accretive interest on discounted vendor take-back loans	\$ 35,294	\$ 50,914	\$ 44,519	\$ 89,037
Short term loan (note 7)	-	-	25,000	50,000
Vendor take-back loan interest	27,034	54,363	14,576	29,279
Warrant options cost	-	-	-	15,316
Bank indebtedness	335	759	1,858	3,149
Interest income	(1,525)	(6,223)	-	-
	\$ 61,138	\$ 99,813	\$ 85,953	\$ 186,781

14. INCOME TAXES

The provision for (recovery of) income taxes differs from the provision computed at the statutory rates due to the various adjustments outlined below:

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
Income (loss) subject to income taxes	\$ 348,978	\$ 112,472	\$ 120,183	\$ (271,801)
Statutory tax rate	36.12%	36.12%	36.12%	36.12%
Recovery of income taxes at statutory tax rates	126,051	\$ 40,625	43,410	(98,175)
Adjustments to income taxes				
Temporary differences				
Intangible assets amortization	46,292	96,170	20,995	41,990
Equity issuance costs	(6,257)	(12,513)	-	-
Financing fees	(6,155)	(12,310)	-	-
Depreciation	1,136	2,210	454	1,528
Other	3,112	3,587	(49,184)	(34,320)
Current period adjustments				
Non deductible interest	12,878	18,390	16,080	32,160
Non deductible expenses	4,047	8,291	838	2,038
Current income taxes	181,104	\$ 144,450	\$ 32,593	\$ (54,779)
Recovery of future income taxes	\$ (47,036)	\$ (94,121)	\$ (19,777)	\$ (23,240)

Significant components of future income tax assets and liabilities as at February 29 are as follows:

	February 29, 2008	February 28, 2007	August 31, 2007
Future income tax assets			
Equity issue costs	\$ 226,334	\$ -	\$ 226,334

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Future income tax liabilities

Asset basis differences	116,073	238,760	114,025
Amortization - customer relationships and contracts	1,725,182	608,050	1,821,351
Deferred costs	6,825	-	6,825
	\$ 1,848,080	\$ 846,810	\$ 1,942,201

15. COMMITMENTS AND CONTINGENCIES

Groupworks leases premises under long term leases that expire on August 31, 2010, December 31, 2010 and April 30, 2015

Groupworks has long term leases related to various office premises and office equipment. Future minimum lease payments as at February 29, 2008 are as follows:

2008	\$ 290,612
2009	292,288
2010	317,173
2011	203,145
2012	152,214
Thereafter	415,350
	\$ 1,670,782

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.

16. CASH FLOW SUPPLEMENTARY INFORMATION

	February 29, 2008		February 28, 2007	
	3 months ended	6 months ended	3 months ended	6 months ended
Interest paid	\$ 5,989	\$ 12,361	\$ 16,434	\$ 32,428
Income taxes paid	\$ 45,650	\$ 94,334	\$ 3,600	\$ 3,600

17. 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 \$13,690 for the 6 months ended February 29, 2008 (2007 - \$13,721). The amount is included in the salaries, wages and benefits expense in these financial statements.

18. SUBSEQUENT EVENT

On March 12, 2008, Mr. Derrick March, the former CEO, resigned from the Board of Directors of the Company.