



GROUPWORKS FINANCIAL CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER AND NINE MONTHS
ENDED MAY 31, 2008

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July 10, 2008

Notice to Shareholders

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

GROUPWORKS FINANCIAL CORP.

Consolidated Balance Sheet

At May 31, 2008

	May 31, 2008	May 31, 2007	August 31, 2007
ASSETS			
CURRENT			
Cash	\$ 38,354	\$ 2,247,776	\$ 1,149,637
Accounts receivable	1,371,987	1,053,524	917,762
Due from related parties	-	-	139,686
Commission advances (note 11)	-	-	78,721
Prepaid expenses and other	83,696	30,524	51,776
	<u>1,494,037</u>	<u>3,331,824</u>	<u>2,337,582</u>
DEFERRED ACQUISITION COSTS (note 3)	169,503	138,240	181,704
CAPITAL ASSETS (note 4)	720,206	683,633	755,460
FUTURE INCOME TAXES (note 14)	189,103	-	226,334
INTANGIBLE ASSETS (note 5)	4,643,125	2,150,625	5,042,500
GOODWILL (notes 1 and 5)	6,825,926	2,988,810	6,783,648
	<u>\$ 14,041,900</u>	<u>\$ 9,293,132</u>	<u>\$ 15,327,228</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT			
Bank indebtedness (note 6)	\$ 63,293	\$ 30,311	\$ 25,733
Accounts payable and accrued liabilities (note 11)	996,194	699,800	1,534,156
Deferred revenue	108,514	-	692,292
Income taxes payable	244,322	33,891	98,774
Current portion of long term debt (note 13)	1,657,398	1,038,910	1,371,891
	<u>3,069,721</u>	<u>1,802,912</u>	<u>3,722,846</u>
DEFERRED RENT LIABILITY	41,737	-	17,761
LONG-TERM DEBT (note 13)	1,312,733	1,872,100	2,176,238
FUTURE INCOME TAXES (note 14)	1,773,246	587,009	1,942,201
	<u>6,197,437</u>	<u>4,262,021</u>	<u>7,859,046</u>
SHAREHOLDERS' EQUITY			
Share capital (note 9(a) (b))	7,798,245	4,965,420	7,784,080
Contributed surplus (note 10)	258,031	118,916	124,070
Deficit	(211,813)	(53,225)	(439,968)
	<u>7,844,463</u>	<u>5,031,111</u>	<u>7,468,182</u>
	<u>\$ 14,041,900</u>	<u>\$ 9,293,132</u>	<u>\$ 15,327,228</u>

TRUST ACCOUNTS (note 8)

COMMITMENTS AND CONTINGENCIES (note 15)

ON BEHALF OF THE BOARD OF DIRECTORS

"Sean Cleary"

Sean Cleary, Chairman of the Board

"John Gallivan"

John Gallivan, President & 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 Third Quarter and Nine Months Ended May 31, 2008

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
REVENUE				
Commissions	\$ 1,578,692	\$ 3,256,209	\$ 1,439,303	\$ 2,537,094
Fees	629,022	2,091,442	70,671	212,019
Other	1,565	21,942	1,219	16,214
	2,209,279	5,369,593	1,511,193	2,765,327
EXPENSES				
Salaries and benefits (notes 10 and 11)	864,849	2,527,756	462,121	1,209,269
Commissions (note 11)	461,958	597,171	473,968	586,738
General and administrative	326,737	949,929	148,397	397,651
Advertising and promotion	121,817	327,287	22,816	115,704
	1,775,361	4,402,143	1,107,302	2,309,362
INCOME BEFORE UNDERNOTED ITEMS	433,918	967,450	403,891	455,965
OTHER EXPENSES				
Interest expense (note 13)	(49,682)	(149,495)	(76,568)	(263,349)
Depreciation of capital assets (note 4)	(24,931)	(69,997)	(9,688)	(24,889)
Amortization of intangible assets (note 5)	(133,125)	(399,375)	(58,125)	(174,375)
Amortization of deferred costs (note 3)	(4,965)	(14,896)	(2,821)	(8,465)
Loss on disposition of capital assets	-	-	(5,731)	(5,731)
	(212,703)	(633,763)	(152,933)	(476,809)
INCOME (LOSS) BEFORE INCOME TAXES	221,215	333,687	250,958	(20,844)
INCOME TAXES (RECOVERED)				
Current (note 14)	130,037	274,487	108,002	53,222
Future (note 14)	(74,834)	(168,955)	(23,355)	(46,595)
	55,203	105,532	84,647	6,629
NET INCOME (LOSS)	166,012	228,155	166,311	(27,469)
DEFICIT - BEGINNING OF PERIOD	(377,825)	(439,968)	(219,536)	(25,754)
DEFICIT - END OF PERIOD	\$ (211,813)	\$ (211,813)	\$ (53,225)	\$ (53,225)
Earnings (loss) per share – basic	\$ 0.010	\$ 0.014	\$ 0.028	\$ (0.005)
Earnings (loss) per share – fully diluted	\$ 0.008	\$ 0.011	\$ 0.022	\$ (0.004)

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

GROUPWORKS FINANCIAL CORP.

Consolidated Statement of Cash Flow

For The Third Quarter and Nine Months Ended May 31, 2008

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
OPERATING ACTIVITIES				
Net income (loss)	\$ 166,012	\$ 228,155	\$ 166,311	\$ (27,469)
Items not affecting cash:				
Depreciation of capital assets	24,931	69,997	9,687	24,888
Loss on disposition of capital assets	-	-	5,731	5,731
Amortization of intangible assets	133,125	399,375	58,125	174,375
Amortization of deferred costs	4,965	14,896	2,821	8,465
Amortization of interest	23,977	74,891	44,519	158,871
Future income taxes	(74,834)	(168,955)	(23,355)	(46,595)
Stock-based compensation expense	62,599	133,962	59,458	118,916
	340,775	752,321	323,297	417,182
Changes in non-cash working capital:				
Accounts receivable	(586,558)	(454,225)	(578,994)	(837,729)
Due from related parties	-	139,686	-	-
Commission advances	65,645	78,721	-	-
Accounts payable and accrued liabilities	211,344	(538,682)	160,543	420,408
Deferred revenue	(362,847)	(583,778)	-	-
Deferred rent liability	(2,664)	23,977	-	-
Income taxes payable	96,198	145,547	108,002	33,891
Prepaid expenses	(43,628)	(31,920)	(30,524)	(19,829)
	(622,510)	(1,220,674)	(340,973)	(403,259)
Cash flow provided (used) by operating activities	(281,735)	(468,353)	(17,676)	13,923
INVESTING ACTIVITIES				
Purchase of capital assets	(22,956)	(34,744)	(125,445)	(134,661)
Proceeds from sale of capital assets	-	-	578,600	578,600
Deposit for acquisition	-	-	-	50,000
Acquisitions	-	(42,278)	-	(5,678,933)
Acquisition fees	-	(2,695)	-	(146,705)
Cash flow used by investing activities	(22,956)	(79,717)	453,155	(5,331,699)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	31,894	37,560	(48,095)	(33,164)
Short term debt	-	-	(1,000,000)	-
Proceeds from long-term debt	-	42,278	-	3,398,933
Repayment of long-term debt	(9,899)	(694,447)	(471,377)	(487,923)
Common stock issued	-	51,396	3,780,000	4,580,000
Equity issuance costs	-	-	(448,231)	(656,026)
Cash flow provided (used) by financing activities	21,995	(563,213)	1,812,297	6,801,820
INCREASE (DECREASE) IN CASH FLOW	(282,696)	(1,111,283)	2,247,776	1,484,044
Cash - beginning of period	321,050	1,149,637	-	763,732
CASH - END OF PERIOD	\$ 38,354	\$ 38,354	\$ 2,247,776	\$ 2,247,776

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

GROUPWORKS FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED MAY 31, 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 financial statements are prepared in accordance with Canadian generally accepted accounting principles with the assumption that Groupworks will be able to realize its assets and discharge its liabilities in the normal course of business as a going concern.

The comparative figures for Fiscal 2007 represent the financial position and results for the third quarter and nine months ended May 31, 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

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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.

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

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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.

3. DEFERRED ACQUISITION COSTS

	Cost	Accumulated amortization	May 31, 2008 Net book value	May 31, 2007 Net book value	August 31, 2007 Net book value
Deferred acquisition costs	\$ 198,572	\$ 29,069	\$ 169,503	\$ 138,240	\$ 181,704

4. CAPITAL ASSETS

	Cost	Accumulated amortization	May 31, 2008 Net book value	May 31, 2007 Net book value	August 31, 2007 Net book value
Computer software	\$ 42,175	\$ 9,317	\$ 32,858	\$ 63,818	\$ 25,707
Computer equipment	115,858	31,812	84,046	32,609	89,261
Furniture and fixtures	162,550	35,330	127,220	114,070	144,871
Leasehold improvements	52,754	11,232	41,522	22,850	47,621
Building	457,143	22,583	434,560	450,286	448,000
	\$ 830,480	\$ 110,274	\$ 720,206	\$ 683,633	\$ 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	May 31, 2008 Net book value	May 31, 2007 Net book value	August 31, 2007 Net book value
Customer relationships	\$ 2,325,000	\$ 406,875	\$ 1,918,125	\$ 2,150,625	\$ 2,092,500
Customer contracts	3,000,000	275,000	2,725,000	-	2,950,000
	\$ 5,325,000	\$ 681,875	\$ 4,643,125	\$ 2,150,625	\$ 5,042,500

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

	May 31, 2008 Net book value	May 31, 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

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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 May 31, 2008, the outstanding balance is \$53,000 (2007 – \$nil).

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 May 31, 2008 there is no outstanding balance (2007 – \$nil).

A maximum \$250,000 operating line of credit which bears interest at prime plus 0.75% with no specific repayment terms. As at May 31, 2008, there is no outstanding balance (2007 – \$nil).

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 May 31, 2008 the balance outstanding is \$10,293 (2007 – \$30,311).

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 May 31, 2008, the insurance premium liabilities are:

Payable to insurance companies	\$	1,010,046
Less related cash or cash equivalents		1,010,046
	\$	-

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9. SHARE CAPITAL AND WARRANTS

(a) SHARE CAPITAL

Authorized: Unlimited common voting shares

	Number	Price/ Average Price	May 31, 2008 Net Amount	May 31, 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				3,780,000	4,140,000
Acquisition of The Investment Guild				800,000	800,000
Acquisition of Gullivan					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	\$4,580,000	\$7,434,590
Add: Warrant options cost					15,316
Less: Units issue costs, net of future taxes			(37,231)	(409,580)	(460,826)
Ending balance issued and outstanding	15,831,931	\$ 0.49	\$ 7,798,245	\$4,965,420	\$ 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

	May 31, 2008		May 31, 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	-		3,000,000	1.00	3,450,000	1.00
Granted to Agent as compensation for initial public offering	-		441,000	0.60	441,000	0.60
Granted for short-term debt	-		85,000	0.60	85,000	0.60
	3,891,000		3,526,000		3,976,000	
Warrant options exercised					(85,000)	0.60
Outstanding at end of period	3,891,000	\$ 0.95	3,526,000	\$ 0.93	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

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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.

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	3.17	680,000
Vested in the period						680,000
Granted in fiscal 2008:						
	18-Sep-07	17-Sep-12	75,000	\$ 0.67	4.30	37,500
	28-Feb-08	27-Feb-13	75,000	\$ 0.38	4.75	18,750
Ending balance			1,550,000	\$ 0.59	3.61	1,416,250

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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 37,500 have vested resulting in a stock-based compensation expense of \$6,282. 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 680,000 options vested resulting in stock-based compensation expense of \$124,070 for a total of \$133,962, with a corresponding increase in contributed surplus, which will be transferred to share capital when the options are exercised.

	May 31, 2008	May 31, 2007	August 31, 2007
Risk-free interest rate	4.12%	4.20%	4.21%
Dividend yield	0.00%	0.00%	0.00%
Volatility factor of expect market price of the Company's shares	25.69%	24.00%	24.98%
Weighted average value of options granted during the year	\$ 0.18	\$ 0.18	\$ 0.18

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:

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
Revenue (i)	\$ 24,907	\$ 73,200	\$ 6,272	\$ 28,939
Expenses				
Salaries, wages & benefits (ii)	69,073	251,354	88,281	233,537
Commissions (iii)	197,169	325,773	263,968	376,296
General and administrative (iv)	6,469	62,491	-	-
Interest expense (v)	33,299	100,747	27,072	81,663
Accounts receivable (i)	26,152	26,152	6,649	6,649
Accounts payable & accrued liabilities(vi)	80,051	80,051	37,968	37,968
Commissions payable (iii)	60,206	60,206	42,217	42,217
Current portion of long term debt (vii)	1,115,367	1,115,367	390,508	390,508
Long term debt (vii)	806,164	806,164	699,776	699,776

- (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 \$186,845 were made during the period (Fiscal 2007 - \$334,080)

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to Directors of the Company who are also employees. An additional \$60,206 (Fiscal 2007 - \$42,217) is owed to these individuals and is included in Commissions payable.

- (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 \$16,976 (Fiscal 2007 - \$43,695) were made to certain directors and shareholders of the Company. Accretive interest of \$ 19,626 (Fiscal 2007 - \$37,968) (included in the long term loan balance) also accrued to these individuals during the quarter. Interest of \$64,144 (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 \$78,399 (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 \$1,652 (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.

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13. LONG-TERM DEBT

	May 31, 2008	May 31, 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.	\$ 306,277	\$ 367,077	\$ 350,401
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.	393,458	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.	1,048,600	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
	2,970,131	2,911,010	3,548,129
Less current portion	1,657,398	1,038,910	1,371,891
Long term debt	\$ 1,312,733	\$ 1,872,100	\$ 2,176,238

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Principal repayment terms are approximately:

2008	\$	702,631
2009		1,486,790
2010		534,345
2011		29,754
2012		31,873
Thereafter		184,738
	\$	2,970,131

Interest expense in the period consists of the following:

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
Accretive interest on discounted vendor take-back loans	\$ 23,977	\$ 74,891	\$ 44,519	\$ 133,556
Short term loan (note 7)	-	-	16,239	66,239
Vendor take-back loan interest	26,758	81,121	14,416	43,695
Warrant options cost	-	-	-	15,316
Bank indebtedness	210	969	1,394	4,543
Interest income	(1,263)	(7,486)	-	-
	\$ 49,682	\$ 149,495	\$ 76,568	\$ 263,349

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:

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
Income (loss) subject to income taxes	\$ 221,215	\$ 333,687	\$ 166,311	\$ (27,469)
Statutory tax rate	36.12%	36.12%	36.12%	36.12%
Income taxes at statutory tax rates	\$ 79,903	\$ 120,528	\$ 60,072	\$ (9,922)
Adjustments to income taxes				
Temporary differences				
Intangible assets amortization	48,084	144,254	20,995	62,985
Equity issuance costs	(5,952)	(18,465)	-	-
Financing fees	(6,460)	(18,770)	-	-
Depreciation	1,043	3,253	167	1,695
Other	1,794	5,381	9,720	(52,782)
Current period adjustments				
Non deductible interest	8,660	27,050	16,080	48,240
Non deductible expenses	2,965	11,256	968	3,006
Current income taxes	\$ 130,037	\$ 274,487	\$ 108,002	\$ 53,222
Recovery of future income taxes	\$ (74,834)	\$ (168,955)	\$ (23,355)	\$ (46,595)

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Significant components of future income tax assets and liabilities as at May 31 are as follows:

	May 31, 2008	May 31, 2007	August 31, 2007
Future income tax assets			
Equity issue costs	\$ 189,103	\$ 236,445	\$ 226,334
Future income tax liabilities			
Asset basis differences	68,192	234,760	114,025
Amortization - customer relationships and contracts	1,677,097	587,129	1,821,351
Deferred costs	27,957	1,549	6,825
	\$ 1,773,246	\$ 823,438	\$ 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 May 31, 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

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
Interest paid	\$ 5,726	\$ 18,460	\$ 97,364	\$ 129,792
Income taxes paid	\$ 30,080	\$ 124,414	-	\$ 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 \$20,774 for the 9 months ended May 31, 2008 (2007 - \$21,120). The amount is included in the salaries, wages and benefits expense in these financial statements.