



**GROUPWORKS FINANCIAL CORP.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THIRD QUARTER AND NINE MONTHS
ENDED MAY 31, 2008**

July 11, 2008

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This Management's Discussion and Analysis ("MD&A") and accompanying unaudited financial statements of Groupworks Financial Corp. (the "Company"), covers the three and nine month periods ended May 31, 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 July 11, 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 collectively own approximately 36% of the issued and outstanding Common Shares calculated as of July 10, 2008. John Gallivan, President, 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 insurance brokerage industry and the Company.

The Company earns its revenues from a diverse base of clients in various industries. In fiscal 2007,

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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 are approximately 13% and 12% respectively whereas 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 THIRD QUARTER OF FISCAL 2008

The following summary financial information is derived from the Company's unaudited consolidated financial statements for the three and nine months ended May 31, 2008.

Overview

During the first nine months of fiscal 2008, the Company successfully integrated the operations of Gallivan and as a result doubled its revenues in the period. For the third quarter and nine months ended May 31, 2008, revenues were \$2,209.3 and \$5,369.6 respectively up from \$1,511.2 and \$2,765.3 respectively in the prior year. Operating margin for the quarter was down from the prior year but consistent on a year to date basis with last year at 34.7%. EBITDA improved to \$496.5 in the third quarter, up from \$463.3 last year and for the nine months ended, improved to \$1,101.4 from \$574.9 over the same period last year. Net income in the quarter was unchanged at \$166.1 but on a year to date basis the Company continues to show improvement with \$228.2 of net income versus a loss of \$27.5 reported for the same nine months in fiscal 2007.

From an operating perspective, management met its expectations in the first nine months 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 (See Seasonality discussion on page 9.).

The Company continues to pursue its strategy of aggregating small and medium sized group benefit and pension advisory service businesses. Management is encouraged by the growth of its pipeline of potential acquisition candidates despite not have completed a transaction in fiscal 2008.

Net income (loss) details for the third quarter and year-to-date ended May 31, 2008: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Q3		Year to Date	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	1,258	350	1,902	904	2,210	1,511	5,370	2,765
Operating costs (i)	1,004	436	1,061	498	1,442	909	3,507	1,843
Operating margin	254	(86)	841	406	768	602	1,863	922
Operating margin %	20.2%	(24.5)%	44.2%	45%	34.8%	39.8%	34.7%	33.3%
Head office costs (ii)	229	78	261	130	271	138	761	347
EBITDA (iii)	25	(164)	580	275	497	464	1,102	575
Less:								
Stock-based compensation expense	63	59	9	-	63	60	135	119
Depreciation of capital assets	22	8	23	8	25	10	70	25
Amortization of intangibles	133	58	133	58	133	58	399	174
Amortization of deferred costs	5	2	5	3	5	3	15	8
Interest expense	39	101	61	86	50	77	150	264
Loss on disposition of capital assets	-	-	-	-	-	6	-	6
Income taxes	(84)	(91)	134	13	55	85	105	7
Net income (loss)	(153)	(301)	215	107	166	166	228	(28)

- (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

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therefore the Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies or issuers.

Selected summary financial information for the third quarter and year-to-date ended May 31, 2008 is as follows: (amounts derived from the unaudited interim financial statements).

	Q1		Q2		Q3		Year to Date	
	2008	2007	2008	2007	2008	2007	2008	2007
Income Statement Information								
Revenue	1,258	350	1,902	904	2,210	1,511	5,370	2,765
EBITDA (see note (iii) above)	25	(164)	580	275	497	464	1,102	575
Net income (loss)	(153)	(301)	215	107	166	166	228	(28)
Balance Sheet Information								
Total assets	14,291	6,971	13,937	7,347	14,042	9,293	14,042	9,293
Total debt	3,567	4,486	2,956	4,382	2,970	2,911	2,970	2,911
Other liabilities (excl. future taxes)	1,451	291	1,480	684	1,454	764	1,454	764
Shareholders' equity	7,378	1,327	7,653	1,434	7,844	5,031	7,844	5,031
Total liabilities and shareholders' equity	14,291	6,971	13,937	7,347	14,042	9,293	14,042	9,293
Weighted average shares								
outstanding – basic	15,731,155	5,691,667	15,828,609	5,691,667	15,831,931	5,899,359	15,797,358	5,761,152
– fully diluted	21,082,320	7,096,667	21,195,433	7,096,667	21,272,931	7,408,205	21,183,887	7,200,895
Income (loss) per share	\$(0.010)	\$(0.053)	\$ 0.014	\$ 0.018	\$ 0.010	\$ 0.028	\$ 0.014	\$(0.005)
Fully diluted income (loss) per share	\$ 0.007	\$(0.042)	\$ 0.010	\$ 0.015	\$ 0.008	\$ 0.022	\$ 0.011	\$(0.004)

Revenue

Revenue for the three and nine months ended May 31, 2008 was \$2,209.3 and \$5,369.6 up from \$1,511.2 and \$2,765.3 for the same periods a year ago. The Gallivan acquisition contributed to the significant increase for the quarter and nine months ended May 31, 2008 by \$828.7 and \$2,485.3 respectively. Excluding the impact of the Gallivan acquisition, revenue was down \$130.6 in the quarter over last year due mainly to the flow through impact of cancellations from the prior year. For the nine months ended May 31, 2008, revenue, excluding the Gallivan acquisition, is up \$119.0 for the same period a year ago due mainly to, new business of \$31.7 and renewal increase of approximately \$87.3 or 5.8%. During the third quarter, there were six new clients added and three cancelled. For the nine months ended, eight new clients were added and three client accounts lost. Despite the increase in revenue in the third quarter from the same quarter in 2007, organic growth experienced during nine months ended May 31, 2008, on the existing base, excluding Gallivan, was approximately 4.3% respectively.

Salaries, Commissions and Benefits Expenses

Salaries, benefits and commissions for the three and nine months ended May 31, 2008 were \$1,326.8 and \$3,124.9 up from \$936.1 and \$1,796.0 respectively for the same periods a year ago. Approximately \$373.8 in the quarter and \$1,134.4 year to date of the increases are due to the acquisition of Gallivan. The balance of the increase in the quarter and year to date, \$16.9 and \$194.5 respectively, relates to the following: three additional employees in the third quarter of fiscal 2008 over 2007; salary increases; and Board of Director fees; offset by the savings resulting from the resignation of the CEO in January 2008.

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The Investor Relations and Business Development, Manager, Corporate Controller and two sales positions were added after the third quarter in fiscal 2007. The first nine months of fiscal 2008 also included an increase of \$16 in stock-based compensation over the prior year.

Other Operating Expenses

Other operating expenses for the third quarter and nine months ended May 31, 2008 were \$448.6 and \$1,277.2 versus \$171.2 and \$513.4 for the same periods a year ago. This is significantly above the previous year mainly due to the consolidation of Gallivan and increased first nine month activity. Of the \$277.4 increase in the third quarter over last year at the same time, Gallivan represents \$142.3 in the quarter and \$452.4 year to date. The remaining increases of \$135.1 in the quarter and \$311.4 year to date are due to additional head office costs including new facility lease costs which began in May 2007, an acquisition advertising campaign, travel and entertainment costs associated with acquisition activity and other public company related costs such as, regulatory filing fees, audit and accounting costs, legal fees, Directors and Officers insurance, and consulting fees to the former CEO.

Interest Expense

Interest expense for the third quarter and nine months ended May 31, 2008 were \$49.7 and \$149.5 compared to \$76.6 in the third quarter of fiscal 2007 and \$263.3 for the same nine month period in fiscal 2007. The decrease of approximately \$26.9 in the quarter is due mainly to a decrease of \$20.5 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 \$16.2 of interest due to the repayment of \$1 million of short term debt, offset by \$12.3 of higher vendor take back debt interest accrued as a result of the Gallivan acquisition. Similarly, for the nine months ended May 31, 2008, the interest expense is down \$113.8 due to lower accretive interest on the vendor take back debt, \$58.7, offset by \$37.4 of higher accrued interest as a result of the Gallivan acquisition, lower bank interest, no warrant option cost in 2008 and the elimination of \$66.2 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 third quarter and nine months ended May 31, 2008 was \$163.0 and \$484.3 respectively. This includes \$133.1 of amortization per quarter for intangibles, \$24.9 for capital asset depreciation per quarter and \$5.0 of acquisition fee amortization per quarter. The charges have doubled both in the quarter and year to date reflecting the full impact of the Gallivan acquisition.

Income Tax Expense

For the quarter ended May 31, 2008 the current income tax expense is \$130.0 and \$274.5 for the nine months to date. This compares to \$108.0 for the third quarter in fiscal 2007 and \$53.2 for the same nine 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 \$74.8 in the quarter and \$169.0 for the nine months ended May 31, 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 third quarter was unchanged from the same period a year ago. For the nine months ended May 31, 2008, the net income is \$228.2 up from a loss of \$27.5 during the same period in fiscal 2007. This is consistent with the seasonal nature of the operations, the revenue and expenses described above, including the impact of the Gallivan acquisition that was completed in the fourth quarter of 2007, and resulting interest and amortization charges.

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LIQUIDITY AND CAPITAL RESOURCES

For the third quarter ended May 31, 2008, cash used by operating activities was \$281.7, up from \$17.7 used in the same period a year ago. This is due mainly to the significant working capital requirement over the same period last year. Similarly, for the nine months ended May 31, 2008, cash utilized in operations was \$468.4 as opposed to \$13.9 that was generated over the same nine month period in 2007. Despite the improvement in EBITDA and improved collections during the period, working capital requirements were significant. The Company's largest single renewal occurs in the third quarter however the cash was not advanced by the carrier in the quarter. The payment is expected in the fourth quarter. The cash used in the first nine months is consistent with the seasonal nature of the revenues. The Company cash requirements in the third quarter resulted in it utilizing its operating credit facilities for approximately \$37.5.

There were no acquisitions in the third 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 year 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 satisfied 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.

At May 31, 2008 acquisition debt after discounting and purchase price adjustments, is \$2,970.1 and down \$578.0 from the prior 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 \$695.2 was extinguished and offset by a purchase price adjustment of \$45.2 and accretion of \$71.9 of interest expense.

Future expected payments are as follows:

	Total	Payments due by period		
		2008	2009 to 2012	Beyond 2012
Short term portion	\$ 1,657.4	\$ 702.6	\$ 954.8	\$ -
Long term debt	1,312.7	-	1,128.0	184.7
Operating leases	1,670.8	290.6	964.8	415.4
	\$ 4,640.9	\$ 993.2	\$ 3,047.6	\$ 600.1

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.

In the fourth quarter of 2008 and first quarter of fiscal 2009 the Company will be required to complete its vendor take back obligation on the Investment Guild acquisition, make its second payment on the Buffett, Taylor acquisition and first payment on the Gallivan acquisition requiring approximately \$1.4 to \$1.6 million of cash depending on whether the Company exercises its option to satisfy some of the obligation in common stock. The Company expects to receive approximately \$1.5 million in commission advances in August 2008 and fulfill its obligation. As described above, the unexpected delay in the receipt of certain commissions has resulted in the Company having to delay its payments with the cooperation of the vendors. The Company therefore expects to meet these obligations with a combination of delaying or staggering its vendor take back payments and or, increasing its banking facilities. Discussion with the

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vendors, some of which are both members of the Board of Directors and shareholders of the Company, has been positive and will be finalized in July 2008.

The Company will also 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.

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 and lower renewals in the first and fourth 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 nine month period ended May 31, 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:

	May 31, 2008		May 31, 2007	
	3 months ended	9 months ended	3 months ended	9 months ended
Revenue (i)	\$ 25	\$ 73	\$ 6	\$ 29
Expenses				
Salaries, wages & benefits (ii)	\$ 69	\$ 251	\$ 88	\$ 234
Commissions (iii)	197	326	264	376
General and administrative (iv)	6	62	-	-
Interest expense (v)	33	101	27	82
Accounts receivable (i)	\$ 26	\$ 26	\$ 7	\$ 7
Accounts payable & accrued liabilities(vi)	80	80	38	38
Commissions payable (iii)	60	60	42	42
Current portion of long term debt (vii)	1,115	1,115	391	391
Long term debt (viii)	806	806	700	700

- (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 was 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 \$186.8 were made during the quarter (Fiscal 2007 - \$334.1) to Directors of the Company who are also employees. An additional \$60.2 (Fiscal 2007 - \$72.1) is owed to these individuals and included in commission payables 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 \$16.9 (Fiscal 2007 - \$43.7) were made to certain directors and

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shareholders of the Company. Accretive interest of \$ 19.6 (Fiscal 2007 - \$37.9) (included in the long term loan balance) also accrued to these individuals during the quarter. Interest of \$64.1 (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 \$78.4 (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 \$1.7 (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 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

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of collection to estimate the required provision.

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.

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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) 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, however, future acquisitions will require the Company to seek additional debt and/or equity financing. 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.