



SECOND QUARTER 2009

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE SIX MONTHS ENDED

SEPTEMBER 30, 2008

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.
Interim Consolidated Balance Sheets
(unaudited)

	September 30, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash	\$ 921,125	\$ 403,554
Accounts receivable	3,600,367	2,469,843
Receivable on sale of an agency	-	102,790
Trust cash (note 2)	175,802	-
Prepaid expenses	351,742	257,394
Income taxes receivable	<u>33,018</u>	<u>147,428</u>
	5,082,054	3,381,009
Due from director (note 9)	17,600	25,100
Fixed assets	436,709	493,440
Customer accounts (note 3)	3,622,328	2,111,727
Deferred financing costs	682,509	739,709
Non-competition agreements	38,711	274,705
Franchise fees	2,487,232	2,656,179
Goodwill	15,999,575	15,564,070
	<u>\$ 28,366,718</u>	<u>\$ 25,245,939</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,478,627	\$ 2,014,590
Current portion of long term-debt (note 4)	1,154,787	770,261
Current portion of obligations under capital leases (note 5)	<u>26,920</u>	<u>39,857</u>
	3,660,334	2,824,708
Obligations under capital leases (note 5)	25,598	34,431
Long-term debt (note 4)	31,453,185	28,777,539
Future income taxes	248,635	63,767
Non-controlling interest in consolidated subsidiary (note 6)	<u>232,921</u>	<u>-</u>
	35,620,673	31,700,445
Commitments (note 12)		
SHAREHOLDERS' EQUITY		
Share capital (note 7)	10,198,389	10,197,279
Accumulated other comprehensive income	242,075	286,481
Contributed surplus	1,611,414	1,564,362
Deficit	<u>(19,305,833)</u>	<u>(18,502,628)</u>
	(7,253,955)	(6,454,506)
	<u>\$ 28,366,718</u>	<u>\$ 25,245,939</u>

Subsequent events (note 16)

See accompanying notes to the unaudited interim consolidated financial statements.

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.
Interim Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

	For the three months ended September 30,		For the six months ended September 30,	
	2008	2007	2008	2007
Revenue	<u>\$ 3,644,716</u>	<u>\$ 4,152,740</u>	<u>\$ 7,560,179</u>	<u>\$ 6,534,740</u>
Expenses:				
Salaries and wages	1,953,601	2,358,322	4,044,982	3,956,178
General and administrative	1,012,191	1,327,502	1,997,301	1,858,055
Rent	281,808	268,620	566,256	444,445
Stock-based compensation (note 8)	23,526	-	47,052	-
	<u>3,271,126</u>	<u>3,954,444</u>	<u>6,655,591</u>	<u>6,258,678</u>
Earnings before interest, income taxes, depreciation and amortization	373,590	198,296	904,588	276,062
Other income (note 6)	(17,480)	-	1,147,727	-
Interest and financing costs (note 13)	(680,953)	(992,760)	(1,548,216)	(1,525,988)
Depreciation and amortization	(298,902)	(650,456)	(1,263,161)	(880,033)
Earnings (loss) before income taxes	<u>(623,745)</u>	<u>(1,444,920)</u>	<u>(759,062)</u>	<u>(2,129,959)</u>
Income taxes:				
Current	46,347	(5,499)	(154,410)	(5,499)
Future tax recovery	76,688	130,202	108,395	188,559
	<u>123,035</u>	<u>124,703</u>	<u>(46,015)</u>	<u>183,060</u>
	(500,710)	(1,320,217)	(805,077)	(1,946,899)
Non controlling interest	3,520	-	1,872	-
Net earnings (loss) for the period	<u>(497,190)</u>	<u>(1,320,217)</u>	<u>(803,205)</u>	<u>(1,946,899)</u>
Other Comprehensive Income(Loss)				
Unrecognized gain(loss) on translation of financial statements of self-sustaining foreign operations	(35,736)	86,999	(44,406)	380,204
Comprehensive Income(Loss)	<u>\$ (532,926)</u>	<u>\$ (1,233,218)</u>	<u>\$ (847,611)</u>	<u>\$ (1,566,695)</u>
Earnings (loss) per share, basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.15)</u>	<u>\$ (0.09)</u>	<u>\$ (0.23)</u>

See accompanying notes to the unaudited interim consolidated financial statements.

ANTHONY CLARK INTERNATIONAL INSURANCE BROKERS LTD.
Interim Consolidated Statements of Cash Flow
(unaudited)

	For the three months ended September 30,		For the six months ended September 30,	
	2008	2007	2008	2007
Cash flow from (used in) operating activities:				
Net earnings (loss) for the period	\$ (497,190)	\$ (1,320,217)	\$ (803,205)	\$ (1,946,899)
Adjustments to reconcile net cash provided by operating activities				
Depreciation and amortization	298,902	650,456	898,684	880,033
Future income taxes(recovery)	(76,688)	(130,202)	(108,395)	(188,559)
Amortization of deferred financing costs and loan discounts	28,591	31,060	53,537	47,422
Impairment of deferred financing costs	-	-	164,833	-
Stock- based compensation	23,526	-	47,052	-
Impairment of non-competition agreements	-	-	215,418	-
Impairment of franchise fees	-	-	149,059	-
Non-controlling interest	(3,520)	-	(1,872)	-
Gain on sale of interest in consolidated subsidiary (note 6)	17,480	-	(1,147,727)	-
	<u>(208,899)</u>	<u>(768,903)</u>	<u>(532,616)</u>	<u>(1,208,003)</u>
Changes in non-cash working capital accounts:				
Accounts receivable	(1,262,608)	(705,292)	(1,392,376)	(684,005)
Prepaid expenses	(25,669)	(49,052)	(90,242)	(125,453)
Accounts payable and accrued liabilities	251,691	349,503	575,432	172,906
Income taxes	(76,347)	33,872	114,410	33,872
	<u>(1,321,832)</u>	<u>(1,139,872)</u>	<u>(1,325,392)</u>	<u>(1,810,683)</u>
Cash flow from (used in) financing activities:				
Repayments on long-term debt	(279,557)	(196,797)	(507,635)	(300,739)
Proceeds from long-term debt	800,000	1,362,699	1,029,097	1,628,249
Proceeds on issue of common shares	1,110	-	1,110	-
Deferred financing costs	(17,714)	(5,919)	(127,179)	(5,919)
	<u>503,839</u>	<u>1,159,983</u>	<u>395,393</u>	<u>1,321,591</u>
Cash flow from (used in) investing activities:				
Additions to fixed assets	(1,195)	(27,584)	(4,282)	(66,501)
Business acquisition costs (note 3)	(19,914)	306,157	(19,914)	306,157
Repayment on due from director	3,750	7,400	7,500	7,400
Settlement of note receivable	105,440	-	105,440	-
Proceeds on sale of interest in consolidated entity (note 6)	(17,480)	-	1,382,520	-
	<u>70,601</u>	<u>285,973</u>	<u>1,471,264</u>	<u>247,056</u>
Effect of foreign exchange	<u>(3,963)</u>	<u>(53,554)</u>	<u>(23,694)</u>	<u>(85,046)</u>
Increase (decrease) in cash during the period	(751,355)	252,530	517,571	(327,082)
Cash, beginning of period	<u>1,672,480</u>	<u>194,370</u>	<u>403,554</u>	<u>773,982</u>
Cash, end of period	<u>\$ 921,125</u>	<u>\$ 446,900</u>	<u>\$ 921,125</u>	<u>\$ 446,900</u>

See note 15.

See accompanying notes to the unaudited interim consolidated financial statements.

Anthony Clark International Insurance Brokers Ltd.
Interim Consolidated Statement of Shareholders' Equity
For the six months ended September 30, 2008
(unaudited)

	Share capital		Accumulated other comprehensive income	Contributed surplus	Deficit
	Shares	Amount			
Balance, March 31, 2008	8,551,978	\$ 10,197,279	\$ 286,481	\$ 1,564,362	\$ (18,502,628)
Stock-based compensation	-	-	-	23,526	-
Unrealized loss on translation of financial statements of self-sustaining foreign operations	-	-	(8,670)	-	-
Net earnings(loss) for the period	-	-	-	-	(306,015)
Balance, June 30, 2008	<u>8,551,978</u>	<u>10,197,279</u>	<u>277,811</u>	<u>1,587,888</u>	<u>(18,808,643)</u>
Stock-based compensation	-	-	-	23,526	-
Shares issued	3,000	1,110	-	-	-
Unrealized loss on translation of financial statements of self-sustaining foreign operations	-	-	(35,736)	-	-
Net earnings(loss) for the period	-	-	-	-	(497,190)
Balance, September 30, 2008	<u>8,554,978</u>	<u>\$ 10,198,389</u>	<u>\$ 242,075</u>	<u>\$ 1,611,414</u>	<u>\$ (19,305,833)</u>

See accompanying notes to the unaudited interim consolidated financial statements.

Anthony Clark International Insurance Brokers Ltd.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ending September 30, 2008

Anthony Clark International Insurance Brokers Ltd.'s (the "Company") primary business activity involves the operation of general insurance brokerages in Canada and the United States. Shares of the Company trade on the TSX Venture Exchange under the symbol "ACL". Revenues are attributed to geographic areas based on the location of resources producing the revenues.

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. The interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited annual consolidated financial statements for the year ended March 31, 2008. As the interim consolidated financial statements do not contain all the disclosures required in annual financial statements, they should be read in conjunction with the Company's March 31, 2008 audited annual consolidated financial statements.

1. NATURE OF OPERATIONS

Anthony Clark International Insurance Brokers Ltd. (the "Company") operates general insurance brokerages in Canada and the United States. On October 31, 2006, in conjunction with new debt financing, the Company's existing brokerage locations in the U.S. were required to begin operating as franchises of Brooke Franchise Corporation, a national franchise insurance brokerage organization. The Company paid initial franchise fees for all its U.S. locations and will pay ongoing franchise fees based on commissions processed by the franchisor. See note 16- Subsequent Events.

2. ACCOUNTING POLICIES

Trust cash

Certain premiums collected, net of related commissions, but not yet remitted to insurance carriers are restricted by contract and by law in certain jurisdictions.

Adoption of new accounting standards

Effective on April 1, 2008, the Company adopted Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments- Presentation" which replaces the disclosure requirements of Section 3861 "Financial instruments – Disclosure and Presentation. Section 3862 requires additional disclosure of the risks associated with financial instruments and of how those risks are managed. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's results of operations or financial condition.

Effective on April 1, 2008, the Company adopted Section 1535 "Capital disclosures" which requires increased disclosure of information regarding a company's capital and how it is managed. The standard requires enhanced disclosures with respect to an entity's objectives, policies and processes for managing capital, what the entity regards as capital, and the entity's compliance with any external capital requirements and related consequences of non-compliance. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Future accounting standards

International Financial Reporting Standards (“IFRS”) The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of its 2012 fiscal year when the Company will prepare both the current and comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company has started the initial planning and assessment phase to ensure a timely transition to IFRS.

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000 “Financial Statement Concepts” and Accounting Guideline 11 “Enterprises in the Development Stage”, issued a new Section 3064 “Goodwill and Intangible Assets” to replace Section 3062 “Goodwill and Other Intangible Assets”, withdrew Section 3450 “Research and Development Costs” and amended Emerging Issues Committee Abstract 27 “Revenues and Expenditures During the Pre-operating Period” to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of its 2010 fiscal year, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company’s financial statements is currently being assessed.

3. BUSINESS ACQUISITIONS

Effective July 1, 2008 and September 1, 2008, the Company, through its Canadian subsidiary, acquired books of business of its independent contractors which were processed through the Canadian subsidiary, for purchase consideration of \$1,931,070. To finance the purchase, the Company drew on the Acquisition Facility in the amount of \$1,542,984. The remaining balance is payable to the vendors in the amount of \$213,990 and \$174,096 at the end of the first and second years after closing, respectively. Under terms of certain of the purchase agreements, the purchase price is subject to a downward adjustment based on the actual commission revenue. In addition, legal costs of \$19,914 were incurred related to the acquisition of the books of business.

In aggregate, as a result of the above transactions, the net assets acquired were as follows:

Assets acquired:

Customer accounts	\$ 2,199,273
Future tax liability	<u>(293,263)</u>
	\$ <u>1,906,010</u>

Consideration paid:

Lender financing	\$ 1,542,984
Vendor financing	388,086
Discount on vendor financing	(44,974)
Legal fees paid	<u>19,914</u>
	\$ <u>1,906,010</u>

4. LONG-TERM DEBT

	September 30, 2008	March 31, 2008
Term loan (U.S.\$ 9,570,000) with interest at the Wall Street Journal's prime rate plus 3.5% per annum with monthly principal and interest payments of \$ 70,873. The loan matures on October 31, 2021 and is collateralized by the U.S. assets of the Company. See (a) below.	\$ <u>6,982,979</u>	\$ <u>9,407,135</u>
Operating Line of Credit with interest at Bank of Canada prime plus 6% per annum with monthly interest only payments. The loan matures on October 31, 2010 and is collateralized by a pledge of all assets of the Company, with all other debt subordinated to the Lender. See (a) below.	<u>-</u>	<u>6,442,674</u>
Term loan (U.S.\$ 10,335,359) with interest at the Wall Street Journal's prime rate plus 3.5% per annum, with monthly principal and interest payments of \$ 103,864. The loan matures on June 15, 2022 and is collateralized by the U.S. assets of the Company. See (a) below.	<u>10,161,054</u>	<u>10,065,351</u>
Term loan with interest only at the Royal Bank of Canada's prime rate of interest plus 2% at the time of advance (6.75% per annum) until June 1, 2009 and then monthly principal and interest payments of \$110,960 are required over the remaining 9 years. The loan matures June 1, 2018 and is collateralized by the Canadian assets of the Company. See (a) below.	<u>8,962,878</u>	<u>-</u>
Term loan with interest at the Royal Bank of Canada's prime rate of interest plus 2% at the time of advance (6.75% per annum), with monthly principal and interest payments of \$17,717. The loan matures on July 8, 2018 and is collateralized by the Canadian assets of the Company. See note 3.	<u>1,524,857</u>	<u>-</u>
Term loan with interest at the Royal Bank of Canada's prime rate of interest plus 2% at the time of advance (6.75% per annum), with monthly principal and interest payments of \$1,837. The loan matures on June 24, 2018 and is collateralized by the Canadian assets of the Company. See (a) below.	<u>157,173</u>	<u>-</u>
Term loan with interest at the Royal Bank of Canada's prime rate of interest plus 2% at the time of advance (6.75% per annum), with monthly principal and interest payments of \$9,186. The loan matures on September 1, 2018 and is collateralized by the Canadian assets of the Company. See (a) below.	<u>800,000</u>	<u>-</u>
Note payable (U.S.\$ 3,250,000) with interest at 14% per annum, with monthly interest only payments, due on April 30, 2012 and collateralized by the U.S. assets of the Company, subordinated to the senior lender.	<u>3,444,675</u>	<u>3,340,675</u>

Note payable (U.S.\$ 100,000) bearing no interest with repayment in three equal annual installments which began August 31, 2008.	70,660	102,790
Less: Unamortized discount	<u>(16,796)</u>	<u>(18,562)</u>
	<u>53,864</u>	<u>84,228</u>
Note payable with interest at 5% per annum and repayable in monthly payments of \$ 8,475 including principal and interest, due on December 1, 2010 and collateralized by a pledge of certain of the Canadian assets of the Company, subordinated to the senior lender. The amount of interest calculated on the difference between the stated interest rate (5%) and the market interest rate (13%) is amortized as incremental interest expense and is accreted to the carrying value of the note.	190,934	236,346
Less: Unamortized discount	<u>(20,018)</u>	<u>(28,609)</u>
	<u>170,916</u>	<u>207,737</u>
Notes payable without interest, repayable in two annual payments of \$ \$213,990 and \$174,096, beginning on July 1, 2009 and collateralized by a pledge of certain of the Canadian assets of the Company, subordinated to the senior lender. The amount of interest calculated on the difference between the stated interest rate (0%) and the market interest rate (8%) is amortized as incremental interest expense and is accreted to the carrying value of the note. See note 3.	388,086	-
Less: Unamortized discount	<u>(38,510)</u>	<u>-</u>
	<u>349,576</u>	<u>-</u>
	32,607,972	29,547,800
Current portion	<u>(1,154,787)</u>	<u>(770,261)</u>
	\$ <u>31,453,185</u>	\$ <u>28,777,539</u>

- a) On June 12, 2008, the Company closed secured debt financing arrangements with ING Insurance Company of Canada ("ING") whereby ING provided a \$10,000,000 ten-year term loan facility (the "Repayment Facility") along with a facility of \$1,500,000 which is available for working capital purposes (the "Working Capital Facility").

An amount of \$8,962,878 was drawn under the Repayment Facility to repay the operating line of credit in full and to reduce the amount outstanding under a term loan. Payments on the \$8,962,878 are interest only, at the Royal Bank of Canada's prime rate of interest plus 2% at the time of advance (6.75%per annum) until June 1, 2009 and then monthly payments of principal and interest of \$110,960 are required over the remaining 9 years The remaining \$1,037,122 available under the Repayment Facility has not yet been used and will, when drawn, be repayable in blended monthly principal and interest payments, with interest at the Royal Bank of Canada's prime rate of interest at the date of advance plus 2%, over a 10 year period. The deferred financing costs related to the repaid operating line of credit and the repayment of a term loan were written off. See Note 13.

Amounts drawn under the \$1,500,000 Working Capital Facility are repayable in blended monthly principal and interest payments, with interest at the Royal Bank of Canada's prime rate of interest at the date of each advance plus 2%, over a period of 10 years from each advance. Amounts of \$800,000 and \$500,000 were drawn under this facility on September 4, 2008 and October 8, 2008, respectively. The draw in the amount of \$800,000 is repayable with monthly principal and interest payments of \$9,186 with interest at the rate of 6.75% per annum. The loan matures on September 1, 2018. The draw in the amount of \$500,000 is repayable with monthly principal and interest payments of \$5,741 with interest at the rate of 6.75% per annum. The loan matures on October 1, 2018.

On June 20, 2008, the Company closed a \$4,500,000 ING loan facility (the "Acquisition Facility") to its subsidiary Anthony Clark Insurance Brokers Ltd. The Acquisition Facility is available to finance the potential future Canadian expansion projects and purchases of Canadian insurance brokerages. The amount of \$160,000 was drawn on June 24, 2008 to add to working capital. An amount of \$1,542,984 was drawn under the Acquisition Facility to purchase books of business processed through the Canadian subsidiary and is repayable in blended monthly principal and interest payments of \$17,717, with interest at the Royal Bank of Canada's prime rate of interest at the date of each advance plus 2% (6.75%), maturing July 8, 2018.

The Company is also subject to certain covenants on an ongoing basis which started in the current quarter ending September 30, 2008 and failure to maintain compliance will result in the loans becoming due on demand.

The above ING facilities have been fully guaranteed and secured by the Canadian assets of the Company. In addition, legal and other costs of \$127,179 were incurred related to the above facilities. Also, in conjunction with the refinancing, the U.S. denominated debt is now secured by the U.S. assets only with a guarantee provided by the Company.

- b) The Company is obligated to make the following principal payments in each of the next five fiscal years:

2009	\$	1,154,787
2010		1,911,047
2011		1,750,483
2012		5,332,787
2013		2,044,043
Thereafter		<u>20,414,825</u>
	\$	<u>32,607,972</u>

5. OBLIGATIONS UNDER CAPITAL LEASES

	September 30, <u>2008</u>	March 31, <u>2008</u>
Obligations under capital leases, collateralized by the assets under lease	\$ 52,518	\$ 74,288
Current portion	<u>(26,920)</u>	<u>(39,857)</u>
	\$ <u>25,598</u>	\$ <u>34,431</u>

6. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARY

The Company closed an equity financing wherein ING purchased a minority interest in Anthony Clark Insurance Brokers Ltd., a recently incorporated subsidiary of the Company. The Company recognized a gain on the sale of a minority interest, which is reflected as Other income. The equity financing amount is subject to adjustment based upon the acquisition of certain books of business. Under certain terms and conditions of the agreement, the Company may be required to repurchase the minority interest.

7. SHARE CAPITAL

- a) Authorized
Unlimited common shares without par value
- b) During the six months ended September 30, 2008, there were no changes in the warrants outstanding.

The following table summarizes information about the warrants outstanding and exercisable at September 30, 2008:

<u>Expiry date</u>	<u>Number</u>	<u>Exercise price</u>
June 15, 2010	<u>1,439,128</u>	\$ <u>0.80</u>

8. STOCK-BASED COMPENSATION

The Company has an incentive stock option plan which provides for the award of stock options to directors, officers, employees and consultants. A maximum of 1,601,395 common shares are reserved under the plan. The terms and exercise prices of all stock option awards are determined by the directors at the time of issue. Changes in stock options during the periods ended September 30, 2008 and March 31, 2008 are as follows:

	<u>Number of options</u>	<u>September 30, 2008 Weighted average exercise price</u>	<u>Number of options</u>	<u>March 31, 2008 Weighted average exercise price</u>
Outstanding, beginning of period	1,601,395	\$ 0.43	1,268,571	\$ 0.76
Awarded	-	-	937,348	0.30
Exercised	(3,000)	(0.37)	-	-
Cancelled	(12,000)	(0.34)	(604,524)	(0.90)
Expired	<u>(144,334)</u>	<u>(0.81)</u>	<u>-</u>	<u>-</u>
Outstanding, end of period	<u>1,442,061</u>	<u>\$ 0.40</u>	<u>1,601,395</u>	<u>\$ 0.43</u>
Exercisable, end of period	<u>820,496</u>	<u>\$ 0.47</u>	<u>664,047</u>	<u>\$ 0.62</u>

The following table sets forth information relating to stock options outstanding as at September 30, 2008:

<u>Expiry</u>	<u>Range of exercise prices</u>	<u>Number outstanding at September 30, 2008</u>	<u>Weighted-average remaining contractual life</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable at September 30, 2008</u>	<u>Weighted-average exercise price</u>
2008-12-31	0.37	373,550	0.25	0.37	373,550	0.37
2009-08-05	1.10	121,163	0.83	1.10	121,163	1.10
2009-08-16	1.25	15,000	0.83	1.25	15,000	1.25
2010-02-28	0.30	932,348	1.42	0.30	310,783	0.30
	<u>\$0.30 to \$1.25</u>	<u>1,442,061</u>	<u>1.06</u>	<u>0.40</u>	<u>820,496</u>	<u>\$0.47</u>

On February 15, 2008, the Company granted 937,348 options to purchase common shares at a price of \$ 0.30 per share to certain employees, directors, and consultants. The options vest over a period of eighteen months from the date of grant and expire on February 28, 2010. The fair value of stock options awarded to employees, directors and consultants of \$141,158 will be recorded to stock-based compensation expense and contributed surplus over the vesting period and was estimated on the date of award using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.25%
Estimated volatility	91%
Expected lives	2.04 years

The average fair value of stock options awarded during the 2008 fiscal year, as calculated using the Black-Scholes option pricing model, was \$ 0.15 per stock option.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option pricing models require the use of estimates and assumptions including expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Changes in the underlying assumptions can materially affect these fair value estimates.

9. RELATED PARTY TRANSACTIONS

The Company enters into transactions with related parties from time to time in the normal course of business. Related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to between the related parties, unless otherwise noted.

During the six months ended September 30, 2008, the Company incurred \$ 141,075 (2007 – \$ 37,195) of legal fees with a law partnership in which, a partner is also a Company director.

The amount due from an officer and director bears interest at the Royal Bank of Canada's prime rate of interest and is collateralized by a pledge of marketable securities and a pledge of other personal assets. The amount is repayable on demand but the Company does not anticipate requesting full repayment during the 2009 fiscal year.

10. CAPITAL MANAGEMENT

The Company considers the capital it manages to be the amounts it has in cash and cash equivalents, debt (long-term and short-term borrowings) and shareholder's equity.

The Company's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern
- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans
- optimize the cost of its capital at an acceptable level in light of current and future industry, market and economic risks and conditions
- utilize the long-term funding sources to manage its working capital and restructure debt to minimize the cost of its capital
- acquire assets and dispose of non-performing assets

The Company's debt contains general security restrictions and debt covenants. The Company's debt covenants came into effect September 30, 2008.

The declaration and payment of dividends and the amount thereof are at the discretion of the Board. In order to maintain and maximize growth, maintain sufficient liquidity to support its financial obligations and optimize the cost of capital, the Company currently does not pay out dividends.

11. FINANCIAL RISK MANAGEMENT

The Company is exposed to credit risk, foreign currency risk, interest rate risk and liquidity risk as a result of holding financial instruments. The Company's financial instruments consist of cash, accounts receivable, an amount due from a director, accounts payable and accrued liabilities, long-term debt and obligations under capital leases.

Fair value

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The fair value of the amount due from a director and the obligations under capital leases are approximated by their carrying values as these items bear market rates of interest. The fair value of long-term debt is approximated by their carrying amounts as the long-term debt either bears a fair market rate of interest or the carrying amount was discounted to reflect a below market rate of interest.

Credit risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations, or if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to cash, accounts receivable from clients, insurance carriers and the franchisor. Cash is in place with major financial institutions. Concentrations of credit risk with respect to client and carrier accounts receivable are limited due to the large number of customers and carriers. The amounts receivable from the franchisor are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements. The Company has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

Foreign currency risk

The Company conducts business operations in the United States and has U.S. dollar denominated indebtedness and is therefore exposed to cash flow risks associated with fluctuations in the relative value of the Canadian and U.S. dollar. The Company does not engage in hedging activities or use financial instruments to reduce its risk exposure.

Interest rate risk

Certain of the Company's indebtedness bear interest at floating rates, which exposes the Company to interest rate cash flow risk. Should the base rate of interest increase in the future, the Company's required interest payments will also increase. The Company manages its exposure to fluctuations in its interest expense, through a mix of fixed and variable interest rates.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company meets liquidity requirements by managing cash flows and being in an industry where its assets are fairly reasonably readily convertible into cash in the short-term.

The Company's ability to obtain funding from external sources may be restricted if the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short-term and long-term debt requirements. The Company mitigates these risks by actively monitoring market conditions and diversifying its sources of funding and debt maturity.

12. COMMITMENTS

The Company leases office premises under operating leases that expire at various dates during the 2009 through 2012 fiscal years. In addition, the Company has current obligations under certain advertising contracts. The Company's minimum lease and other payments under the agreements are as follows:

2009	\$	1,838,502
2010		588,087
2011		352,057
2012		<u>7,555</u>
	\$	<u>2,786,201</u>

13. INTEREST AND FINANCING COSTS

	Three months ending September 30, 2008	Three months ending September 30, 2007	Six months ending September 30, 2008	Six months ending September 30, 2007
Canadian operations				
Interest on long-term debt	\$ 184,689	\$ 3,985	\$ 209,303	\$ 8,236
Interest on operating line of credit	-	187,059	145,905	258,605
Other	-	28,373	-	28,373
Amortization of deferred financing costs and loan discount	13,761	15,764	24,574	22,461
Impairment of deferred financing costs	-	-	84,298	-
Interest on obligations under capital lease	1,072	1,428	2,233	3,281
	<u>199,522</u>	<u>236,609</u>	<u>466,313</u>	<u>320,956</u>
U.S. operations				
Interest and loan fees on long-term debt	\$ 466,601	\$ 740,321	\$ 972,257	\$ 1,178,952
Amortization of deferred financing costs and loan discount	14,830	15,296	28,963	24,961
Impairment of deferred financing costs	-	-	80,535	-
Interest on obligations under capital lease	-	534	148	1,119
	<u>481,431</u>	<u>756,151</u>	<u>1,081,903</u>	<u>1,205,032</u>
	<u>\$ 680,953</u>	<u>\$ 992,760</u>	<u>\$ 1,548,216</u>	<u>\$ 1,525,988</u>

14. SEGMENT DISCLOSURES

The Company operates in two geographic regions, Canada and the United States. There were no inter-segment transactions during the reporting periods:

SEGMENT DISCLOSURES	Three months ended September 30, 2008			Three months ended September 30, 2007		
	Canada	U.S	Consolidated	Canada	U.S	Consolidated
Operating Segments						
Revenue	1,365,970	2,278,746	3,644,716	1,269,343	2,883,397	4,152,740
Net earnings (loss)	(32,644)	(464,546)	(497,190)	(134,045)	(1,186,172)	(1,320,217)
Identifiable assets	6,569,656	21,797,062	28,366,718	4,028,446	22,228,339	26,256,785
Depreciation and amortization	172,246	126,656	298,902	89,829	560,627	650,456
Interest and financing costs	199,522	481,431	680,953	236,609	756,151	992,760
Fixed assets, intangibles and goodwill	4,501,633	18,082,922	22,584,555	2,755,613	19,271,274	22,026,887
	<u>4,501,633</u>	<u>18,082,922</u>	<u>22,584,555</u>	<u>2,755,613</u>	<u>19,271,274</u>	<u>22,026,887</u>
	<u>\$ 4,501,633</u>	<u>\$ 18,082,922</u>	<u>\$ 22,584,555</u>	<u>\$ 2,755,613</u>	<u>\$ 19,271,274</u>	<u>\$ 22,026,887</u>
	<u>4,501,633</u>	<u>18,082,922</u>	<u>22,584,555</u>	<u>2,755,613</u>	<u>19,271,274</u>	<u>22,026,887</u>
	<u>\$ 4,501,633</u>	<u>\$ 18,082,922</u>	<u>\$ 22,584,555</u>	<u>\$ 2,755,613</u>	<u>\$ 19,271,274</u>	<u>\$ 22,026,887</u>

15. SUPPLEMENTAL CASH FLOW INFORMATION

During the six month period ended September 30, 2008, the Company paid interest of \$ 1,309,081 (2007- \$ 1,382,938). During the three month period ended September 30, 2008, the Company paid interest of \$ 614,037 (2007- \$ 878,489).

During the six month period ended September 30, 2008, the Company paid income taxes of \$ 40,000 (2007- Nil). During the three month period ended September 30, 2008, the Company paid income taxes of \$ 30,000 (2007- Nil).

During the six and three months ended September 30, 2008 and 2007, the Company had non-cash transactions as follows:

	Three months ended September 30, 2008	Three months ended September 30, 2007	Six months ended September 30, 2008	Six months ended September 30, 2007
Financing activities				
Capital lease for financing fixed asset purchase	\$ -	\$ -	\$ -	\$ 62,983
Capital lease assumed on asset purchase	-	13,233	-	13,233
Future tax liability incurred related to purchase of books of business	293,263	-	293,263	-
Debt incurred for purchase of books of business	1,542,984	-	1,542,984	-
Discounted vendor debt related to purchase of books of business	343,112	-	343,112	-
Debt incurred for costs of acquisition and debt	-	-	-	13,204,113
	<u>\$ 2,179,359</u>	<u>\$ 13,233</u>	<u>\$ 2,179,359</u>	<u>\$ 13,280,329</u>
Investing activities				
Purchase of customer accounts for vendor and lender financing	\$ (2,179,359)	\$ -	\$ (2,179,359)	\$ (1,739,867)
Adjustment to goodwill for assumption of capital lease	-	(13,233)	-	(13,233)
Purchase of goodwill for note payable	-	-	-	(9,731,258)
Purchase of fixed assets for note payable	-	-	-	(265,675)
Franchise fees and financing costs paid with debt incurred	-	-	-	(1,467,313)
Fixed asset additions financed by capital lease	-	-	-	(62,983)
	<u>\$(2,179,359)</u>	<u>\$ (13,233)</u>	<u>\$(2,179,359)</u>	<u>\$(13,280,329)</u>

16. **SUBSEQUENT EVENTS**

During the quarter, Brooke monthly settlements of net commissions for the US Operations were not made per the terms of the Brooke franchise agreements. On September 11, 2008, the Company filed a claim in the Superior Court in California against Brooke Corporation, Brooke Capital Corporation and Aleritas claiming net commissions receivable, breach of contract, fraud and misrepresentation in the amount of approximately U.S.\$ 6.0 million, of which \$1,501,511 relates to net commissions receivable and this amount is included in the September 30, 2008 accounts receivable. Commitments include approximately \$570,000 for amounts contracted by the franchisor on behalf of the Company's franchised locations.

On October 17, 2008, the Company's U.S. operations were released from their franchise agreements and therefore, the unamortized franchise fees of \$2,487,232 will be written off in the next quarter. On October 28, 2008, Brooke Corporation and Brooke Capital Corporation filed voluntary petitions under chapter 11 of the United States Bankruptcy Code. The November 15, 2008 payments due on the Aleritas loans were not made. The Company is in discussions regarding the transition and the ongoing servicing of the Aleritas loans.