Consolidated Financial Statements of

MORNEAU SOBECO INCOME FUND

For the Years Ended December 31, 2009 and 2008

MANAGEMENT STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements for Morneau Sobeco Income Fund (the "Fund") have been prepared by management and approved by the Board of Trustees of the Fund. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained in the Annual Report within reasonable limits of materiality. The Fund's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In the preparation of these financial statements, estimates are necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements.

To assist management in discharging these responsibilities, the Fund maintains a system of internal controls, which is designed to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibilities for conducting the Fund's affairs in compliance with established financial reporting standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

KPMG LLP, Chartered Accountants, were appointed as external auditors by the Trustees of the Fund and have audited the consolidated financial statements of the Fund in accordance with Canadian generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

The Board of Trustees of the Fund has appointed an Audit Committee composed of three Trustees who are not members of management. The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is responsible for reviewing the Fund's annual and interim consolidated financial statements and the report of the external auditors. The Audit Committee reports the results of such reviews to the Board of Trustees of the Fund and makes recommendations with respect to the appointment of the Fund's external auditors. In addition, the Board of Trustees may refer to the Audit Committee on other matters and questions relating to the financial position of the Fund and its subsidiaries.

The Board of Trustees of the Fund is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for approving the consolidated financial statements of the Fund.

"Alan Torrie"

Alan Torrie
President and CEO

"Scott Milligan"

Scott Milligan
Chief Financial Officer

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AUDITORS' REPORT

To the Unitholders of Morneau Sobeco Income Fund

We have audited the consolidated balance sheets of Morneau Sobeco Income Fund (the "Fund") as at December 31, 2009 and 2008 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 9, 2010

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MORNEAU SOBECO INCOME FUND
CONSOLIDATED BALANCE SHEETS
As at December 31
(In thousands of dollars)

	2009	2008
Assets		
Current assets:		
Cash	$ 1,606	$ -
Accounts receivable	53,791	52,930
Unbilled fees	17,526	15,861
Income taxes recoverable	1,796	1,484
Prepaid expenses and other	3,288	5,482
Current portion of deferred implementation costs	167	-
	78,174	75,757
Future income taxes (note 13)	12,180	7,740
Foreign exchange contracts (note 22)	479	-
Deferred implementation costs	929	-
Capital assets (note 4)	15,333	16,069
Intangible assets (note 5)	253,659	290,623
Goodwill (note 6)	300,792	299,676
	$ 661,546	$ 689,865
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ -	$ 504
Accounts payable and accrued liabilities	39,139	40,033
Deferred revenues	1,795	2,245
Current portion of long-term debt (note 7)	11,500	7,000
Current portion of promissory note (note 8)	4,306	31,632
Future consideration related to acquisition (note 3)	2,457	684
Unitholder distributions payable (including non-controlling)	3,759	3,233
	62,956	85,331
Insurance premium liabilities:		
Payable to insurance companies	9,313	12,037
Less related cash and investments held	(9,313)	(12,037)
	-	-
Long-term debt (note 7)	158,887	135,418
Promissory notes (note 8)	-	43,917
Interest-rate swaps and foreign exchange contracts (note 7 and 22)	6,656	11,917
Future consideration related to acquisition (note 3)	-	1,727
Other liabilities (note 9)	10,206	8,611
Future income taxes (note 13)	24,359	33,090
	263,064	320,011
Non-controlling interests (note 11)	46,137	51,724
Unitholders' equity (note 10)	352,345	318,130
	$ 661,546	$ 689,865

Commitments and Contingencies (notes 3, 7,17 and 18)
Economic dependence (note 19)

See accompanying notes to consolidated financial statements

"Robert Chisholm"
Robert Chisholm
Trustee, Audit Committee Chair

"Alan Torrie"
Alan Torrie
Trustee, President & CEO

MORNEAU SOBECO INCOME FUND
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands of dollars, except per unit amounts)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Revenue		
Fees	$ 309,315	$ 227,235
Commissions	22,044	21,940
Other	344	538
	331,703	249,713
Expenses		
Salary, benefit and contractor expenses	211,543	156,707
Other operating expenses	60,184	42,895
Amortization of capital assets	4,012	3,301
Amortization of intangible assets	41,139	30,759
Interest expense (note 7)	13,211	11,172
	330,089	244,834
Income before income taxes and non-controlling interest	1,614	4,879
Income taxes (recovery) (note 13)		
Current	813	27
Future	(11,427)	(5,689)
	(10,614)	(5,662)
Income before non-controlling interest	12,228	10,541
Non-controlling interest (note 11)	(1,402)	(1,745)
Net income	10,826	8,796
Other comprehensive income (loss)		
Unrealized gain (loss) on interest rate cash flow hedges, net of tax effect (note 7)	4,524	(11,096)
Comprehensive income (loss) for the year	$ 15,350	$ (2,300)
Net income per Unit (basic) (note 15)	$ 0.27	$ 0.30
Net income per Unit (diluted) (note 15)	$ 0.26	$ 0.30

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
Years Ended December 31, 2009 and 2008
(In thousands of dollars)

	Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income/(Loss)	Deficit	Total
Balance, December 31, 2007	$ 211,833	$ -	$ -	$ (14,165)	$ 197,668
Exchange of Class B LP Units	4,556	-	-	-	4,556
Issuance of Units	153,000	-	-	-	153,000
Issuance costs, net of future income tax benefits	(7,166)	-	-	-	(7,166)
Net income for the year	-	-	-	8,796	8,796
Comprehensive loss for the year	-	-	(11,096)	-	(11,096)
Distributions	-	-	-	(27,628)	(27,628)
Balance, December 31, 2008	$ 362,223	$ -	$ (11,096)	$ (32,997)	$ 318,130
Change in accounting policy related to EIC 173 (note 2(p)(ii))	-	-	627	-	627
As restated, January 1, 2009	362,223	-	(10,469)	(32,997)	318,757
Exchange of Class B LP Units (note 10)	1,721	-	-	-	1,721
Issuance of Units (note 10)	55,000	-	-	-	55,000
Issuance costs, net of future income tax benefits (note 10)	(2,467)	-	-	-	(2,467)
Long-term incentive plan – conversion (note 12)	(3,176)	1,650	-	-	(1,526)
Long-term incentive plan – non-cash expense (note 12)	-	2,258	-	-	2,258
Long-term incentive plan – vested Units (note 12)	73	(73)	-	-	-
Long-term incentive plan – sale of Treasury Units (note 10)	2,293	-	-	(407)	1,886
Net income for the year	-	-	-	10,826	10,826
Comprehensive income for the year	-	-	4,524	-	4,524
Distributions	-	-	-	(38,634)	(38,634)
Balance, December 31, 2009	$ 415,667	$ 3,835	$ (5,945)	$ (61,212)	$ 352,345

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash provided by (used in):		
Operating activities		
Net income	$ 10,826	$ 8,796
Items not involving cash:		
Amortization of capital assets	4,012	3,301
Amortization of intangible assets	41,139	30,759
Amortization of debt issue costs (note 7)	469	355
Non-controlling interest of Class B LP Units	1,402	1,745
Gain on sale of intangible assets	(94)	-
Long-term incentive plan	2,258	-
Future income taxes (recovery)	(11,427)	(5,689)
Salary component of Heath acquisition (note 3(d))	-	1,212
Accretion on promissory notes (note 7)	3,488	4,191
Fair value of forward exchange contracts (note 22)	(1,299)	821
Fair value of interest-rate swap agreements	-	785
Changes in sublease loss provisions	1,956	-
Write-down of leasehold improvements related to sublease loss provisions	1,338	-
Other	(503)	299
	53,565	46,575
Change in non-cash operating working capital (note 16)	(4,610)	(11,280)
	48,955	35,295
Financing activities		
Issuance of units (note 10)	55,000	153,000
Expenses related to issuance of units (note 10)	(3,500)	(10,287)
Proceeds from long-term debt (note 7)	23,000	137,000
Repayment of promissory note (note 8)	(74,730)	-
Repayment of term loan	-	(35,000)
Deferred financing cost	-	(1,854)
Change in revolving loan (note 7)	4,500	7,000
Proceeds from sale of treasury Units (note 10)	1,886	-
Distributions paid	(43,377)	(31,530)
	(37,221)	218,329
Investing activities		
Business acquisition – Leong & Associates (note 3(a))	-	(2,410)
Business acquisition – Shepell•fgi (note 3(b))	-	(248,763)
Business acquisition – Cowan (note 3(c))	(930)	(1,360)
Business acquisition – Heath (note 3(d))	-	(1,755)
Cash assumed from acquisitions (note 3(a) & (b))	-	343
Additions to intangible assets	(4,325)	(1,332)
Proceeds from sale of intangible assets	218	-
Purchase of capital assets	(4,587)	(1,749)
	(9,624)	(257,026)
Net increase (decrease) in cash for the year	2,110	(3,402)
(Bank indebtedness) Cash, beginning of year	(504)	2,898
Cash (Bank indebtedness), end of year	$ 1,606	$ (504)

See accompanying notes to consolidated financial statements

1. ORGANIZATION AND NATURE OF THE BUSINESS

Morneau Sobeco Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on August 22, 2005.

The Fund is a Canadian-owned firm providing human resource consulting and outsourcing services, delivering solutions to assist employers in managing the financial security, health and productivity of their employees. The Fund offers its services to organizations that are situated in Canada, in the United States and around the globe.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles and the significant accounting policies are summarized below:

(a) Basis of presentation

These consolidated financial statements include the assets, liabilities, revenue and expenses of the following entities:

	% Ownership
Morneau Sobeco Trust ("Trust")	100.0
Morneau Sobeco GP Inc. ("MS GP")	100.0
Morneau Sobeco Limited Partnership ("MSLP")	88.6
Morneau Sobeco Group Limited Partnership ("MS Group LP")	88.6
Morneau Sobeco, Ltd.	88.6
HRCO Inc ("HRCO")	88.6
FGI World France S.A.R.L.	88.6
FGI World New Caledonia	88.6
1137273 Ontario Limited	88.6
Morneau Sobeco IT Solutions Inc. (formerly 2183573 Ontario Inc)	88.6
Innu-Med Inc.	42.5

All intercompany transactions and balances have been eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

The most significant estimates that the Fund is required to make relate to the recoverability of its intangible assets, goodwill, accounts receivable, derivative financial instruments and the valuation of future income tax assets and liabilities. The estimated value of these assets and liabilities usually depend upon estimates of the profitability of the related business which, in turn, depend upon assumptions regarding future conditions in the general or specific industry, including the effects of economic cycles, and other factors that affect the operating revenue.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of fair value are subjective and do no necessarily result in precise determinations. Should the underlying assumptions change, the estimated value could change by a material amount.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition and unbilled fees

Revenues include fees generated from administrative, actuarial, and consulting services, employee assistance programs (EAP), and outsourcing contracts.

Fees for administrative, actuarial and consulting services are billed either on a time-and-material basis or on a fixed-fee basis. On time-and-material engagements, revenue is recognized as services are rendered and expenditures are incurred. On fixed-fee engagements, revenue is recognized in the period in which the services are rendered.

EAP revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a basis consistent with provision of EAP services. Incremental usage is recognized when the minimum usage threshold is exceeded.

Outsourcing engagements typically involve both an implementation and administration component. Revenues associated with these contracts have been recognized in accordance with CICA Handbook EIC-142 *Revenue Arrangements with Multiple Deliverables*, to determine whether each component of the outsourcing contract qualifies for treatment as a separate unit of account. Multiple deliverable arrangements are determined to exist if all of the following criteria are met:

- The delivered item has value to the customer on a stand-alone basis;
- There is objective evidence of the fair value of the undelivered item; and
- If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor.

If these criteria are not met, deliverables (components) included in an arrangement are accounted for as a single unit of accounting and revenue is deferred and recognized on a basis consistent with elements of the service contract.

Unbilled fees are recorded at the lower of unbilled hours worked at normal billing rates and the amount which is estimated to be recoverable upon invoicing.

Commissions are recognized when earned, which is at the later of the billing or the effective date of the policy, net of a provision for return commissions due to policy cancellations or change of brokers.

Other revenue includes investment income recorded on the accrual basis.

(d) Deferred implementation costs and deferred outsourcing revenues

Implementation costs incurred in connection with the outsourcing service contracts, relate to those costs necessary to set up clients and their human resource or benefit programs onto the Fund's systems and operating processes. Such costs may include internal and external costs for coding and customizing systems, client data conversion costs, and contract negotiation costs. On outsourcing contracts that are accounted for as a combined unit of accounting, specific, incremental, and direct costs of the implementation component are deferred and amortized over the term of the service contract. For outsourcing contracts where each component is considered a separate unit of accounting, those costs are deferred and amortized over the remaining term of each component.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation fees are typically received from clients either up-front or over the course of the implementation period. These fees are initially deferred and recognized as revenue over the term of the service contract if accounted for as a combined unit of accounting, or over the term of the implementation period, if accounted for as a separate unit of accounting. If a client terminates an outsourcing contract prior to its end, a loss on the contract may be recorded (if necessary), and any remaining deferred implementation revenues and costs would be recognized into income over the remaining implementation period through to the date of termination.

(e) Foreign currency translation

The Fund's and its subsidiaries' functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet dates. Non-monetary items have been translated into Canadian dollars at the exchange rates prevailing when the assets were acquired or obligations incurred. Revenues and expenses have been translated at rates in effect on the transaction dates. Exchange gains or losses are reflected in income for the year.

(f) Capital assets

Capital assets are stated at their initial capital cost less accumulated amortization. Amortization is recognized over the assets' estimated useful lives as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Over term of the lease

(g) Intangible assets

Intangible assets consist of customer relationships, customer contracts, proprietary software, non-compete agreements, and trade names acquired through acquisitions or business combinations, internally-developed software for internal use, and purchased software. Intangible assets acquired through acquisitions or business combinations are initially recognized at fair value based on an allocation of the purchase price. Internally-developed proprietary software for internal use is recognized at the aggregate fair value of all eligible development costs, determined in accordance with Section 3064, *Goodwill and Intangible Assets*. Eligible expenditures capitalized as part of proprietary software developed for internal use include external direct costs of materials and services consumed in development, and payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent that their time was spent directly on the project). All costs incurred in the preliminary research stage of the projects are expensed as incurred.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, or on a declining balance basis for purchased software. Intangible assets with an indefinite life are not amortized, but are tested for impairment annually or more frequently if events or circumstances indicate there may be an impairment by comparing the estimated discounted future net cash flows from the asset to its carrying amount.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization is recognized over the assets' estimated useful lives as follows:

Asset	Estimated useful lives
Customer relationships	15 to 20 years
Customer contracts	1 to 2 years
Proprietary software	5 years
Non-compete agreements	16 months
Trade names	Indefinite
Internally-developed software	5 years
Purchased software	30% to 50% declining balance

(h) Impairment of long-lived assets

Long-lived assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances cause their carrying amount to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss is measured at the amount by which the carrying amount of the long-lived asset exceeds its fair value.

(i) Goodwill

Goodwill is not amortized and is subject to an annual impairment test. Goodwill impairment is assessed based on a comparison of the estimated fair value of each of the Fund's reporting units and the carrying value of its net assets including goodwill. An impairment loss will be recognized if the carrying amount of the reporting unit's net assets exceeds its estimated fair value.

(j) Insurance premium liabilities and related cash and investments

In its capacity as consultants, the Fund collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. These are considered flow-through items for the Fund and, as such, the cash and investment balances relating to these liabilities are deducted from the related liability in the consolidated balance sheets.

(k) Long-term incentive plan

Under the Fund's long-term incentive plan ("LTIP") consisting of a restricted stock unit plan (the "RSU plan") and a deferred stock unit plan (the "DSU plan"), participants are eligible to receive Units. The amount awarded under the DSU plan is valued at the Unit's fair value on the date of the award, and the RSU plan is based on the purchased amount. The amounts awarded are recorded as salary, benefit and contractor expenses in line with the vesting dates which range from one to three years. As the Units vest, they are transferred or issued to the plan participant and are recorded as Unitholders' Capital. Unvested DSUs (note 12) are entitled to cash bonuses equivalent to the distributions paid on the Fund Units and the amounts are recorded as expenses as distributions are declared.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee future benefits

The Fund offers a pension benefit plan for its eligible employees, which includes a defined benefit option and a defined contribution option.

The defined benefit option was closed effective January 1, 1998 and included 6 employees, 11 retirees and 46 deferred vested members as at December 31, 2009. All other employees are covered by the defined contribution option of the plan.

The Fund accrues its obligations under the defined benefit option of the plan as the employees render the services necessary to earn the pension. For the defined contribution option, the Fund matches member contributions and may be required to make additional contributions at the option of the member, up to the limits defined in the plan text.

(m) Income taxes

The Fund uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. A valuation allowance is recorded against a future income tax asset if it is not anticipated that the asset will be realized in the foreseeable future. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

(n) Deferred lease inducements

Lease inducements comprise rent-free periods and leasehold improvement allowances. Lease inducements are deferred and amortized to rental expense on a straight-line basis over the term of the related lease.

(o) Financial instruments

Financial assets and financial liabilities are initially measured at fair value, defined as the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs. Subsequent measurement of the Fund's financial assets and liabilities is dependent on their classification as held for trading, loans and receivables, other financial liabilities, or derivative instruments.

Held for trading financial assets and liabilities are measured at fair value as at the date of the consolidated balance sheet, and any unrealized gains or losses from market fluctuations are included in the consolidated statement of income.

Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments are used by the Fund in the management of its interest rate risk exposure on debt financing and foreign exchange risk arising due to fluctuations in the United States dollar. Derivatives that have been designated and function effectively as a hedge are accounted for using hedge accounting principles. The effective portions of changes in fair value of derivatives that qualify for hedge accounting are recorded in other comprehensive income. Any ineffective portions of changes in the fair value are recognized in net income in the period in which the change occurred. If the hedging relationship ceases to be effective, the cumulative change in the fair value of the interest-rate swap are recognized into income beginning in the period in which the change occurs. Derivatives that do not qualify for hedge accounting are recorded on the consolidated balance sheet at fair value with changes in fair value recorded as income or expense in the consolidated statement of income.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significant inputs used in determining the fair values, in accordance with the amendment to CICA Handbook Section 3862 in June 2009:

(i) Level 1 - Inputs unadjusted quoted prices of identical instruments in active markets

(ii) Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

(iii) Level 3 – One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement.

The Fund does not use derivative financial instruments for trading or speculative purposes.

(p) New accounting policies

Effective January 1, 2009 the Fund adopted the following new accounting standards:

(i) Section 3064, *Goodwill and Intangible Assets*, which replaces the existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The adoption of this section has not impacted the Fund's consolidated net comprehensive income, but did result in the reclassification of computer software costs from capital assets to intangible assets in the amount of $1,198 as at December 31, 2008.

(ii) EIC 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities*. This Abstract establishes that an entity's own credit risk and that of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, inclusive of derivative instruments. EIC 173 has been applied retrospectively without restatement of prior periods for the period commencing January 1, 2009. The adoption of EIC 173 resulted in an adjustment to opening accumulated other comprehensive loss of $627, net of tax effect.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Future accounting changes

(i) Business combinations – In January 2009, the CICA issued new Handbook Section 1582, *Business Combinations*, replacing the former Section 1581, *Business Combinations*, and representing the Canadian equivalent to International Financial Reporting Standards 3, *Business Combinations*. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assume in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting and such costs will be expensed as incurred, unless they constitute the costs associated with debt or equity issuance.

(ii) Consolidated financial statements and non-controlling interests – In January 2009, the CICA issued new Handbook Sections 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, replacing Section 1600, *Consolidated Financial Statements*. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of unitholders' equity. Under Section 1602, consolidated net income and other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

(iii) International Financial Reporting Standards ("IFRS") – The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian Generally Accepted Accounting Principles ("GAAP") with IFRS for interim and annual reporting periods commencing January 1, 2011. The Fund's first annual IFRS consolidated financial statements will be for the year ended December 31, 2011, and will include the comparative period for the year ended December 31, 2010. Starting with the first quarter of 2011, the Fund will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010.

3. BUSINESS ACQUISITIONS

(a) Leong & Associates Actuaries And Consultants Inc. ("Leong & Associates")

On October 1, 2008, a subsidiary of the Fund acquired all the issued and outstanding shares of Leong & Associates, a British Columbia based actuarial and pension consulting firm in Western Canada.

The purchase price is contingent on business results and is expected to be approximately $7,600 payable in three instalments. The first instalment was satisfied on closing through cash and equity consideration. The second and third instalments, which are subject to revenue adjustments plus interest calculated at annual rates of 3.27% and 3.87% will be settled on January 1, 2010 and April 1, 2011, respectively.

3. BUSINESS ACQUISITIONS (continued)

The contingent consideration has been recognized to the extent the acquired assets net of liabilities assumed exceed the first instalment of the purchase price. The acquisition has been accounted for by the purchase method, based on management's best estimates of the fair value of the net identifiable assets and liabilities.

Assets and liabilities acquired:	
Cash	$ 71
Accounts receivable	1,200
Unbilled fees	132
Prepaid expenses and other	57
Capital assets	19
Intangible assets	5,797
Goodwill	870
Accounts payable and accrued liabilities	(737)
Other liabilities	(280)
Future income tax liabilities	(1,662)
	$ 5,467

Consideration:	
Cash	$ 2,410
Exchangeable Units	600
Future considerations	2,457
	$ 5,467

Goodwill and future consideration have been adjusted by $870 to reflect the second instalment determined to be payable of $2,457 (December 31, 2008 - $1,727).

These consolidated financial statements include the results of Leong & Associates from the date of acquisition on October 1, 2008.

(b) Shepell·FGI Holdings LP ("Shepell•fgi")

On June 2, 2008, the Fund indirectly acquired certain assets, shares of certain subsidiaries, liabilities and contracts of Shepell•fgi. The total purchase price is $320,121 including transaction cost of $1,404. The consideration was satisfied by cash of $247,359 and two non-interest bearing promissory notes of $75,000 and $4,500 repayable on July 2, 2009 and July 2, 2010, respectively. The promissory notes were recorded at their combined present value of $71,358.

The acquisition was financed by the issuance of the Fund's Units for proceeds of $153,000, net of underwriters' fees and estimated issuance expenses of approximately $10,287. The remaining amount was financed through cash from operations and the utilization of a new credit facility. $245,223 of the cash consideration, excluding transaction costs, was paid on closing and the remainder of $2,136 was settled in July 2008 after the finalization of the working capital. The acquisition has been accounted for by the purchase method based on management's best estimate of the fair value of the identifiable assets and liabilities acquired.

3. BUSINESS ACQUISITIONS (continued)

Assets and liabilities acquired:	
Cash	$ 272
Accounts receivable	14,672
Unbilled fees	9,956
Income taxes recoverable	572
Prepaid expenses and other	2,225
Capital assets	7,669
Intangible assets:	
Customer relationships	90,000
Customer contracts	27,500
Trade name	70,000
Non-compete agreements	5,000
Proprietary software	6,000
Goodwill	125,628
Accounts payable and accrued liabilities	(23,139)
Deferred revenue	(2,298)
Future income tax liabilities	(5,948)
Other liabilities	(7,988)
	$ 320,121
Consideration:	
Cash	$ 247,359
Transaction costs	1,404
Promissory notes issued to vendors, at present value	71,358
	$ 320,121

These consolidated financial statements include the results of Shepell•fgi from the date of acquisition on June 2, 2008.

(c) Cowan Benefits Consulting Limited ("Cowan")

On June 1, 2007, a subsidiary of the Fund directly acquired certain assets, liabilities and contracts of the defined benefit pension administration and actuarial consulting practices ("Cowan DB business") of Cowan, a benefits consulting firm based in the Waterloo region, in Ontario. The purchase price, based on the final pension administration and actuarial consulting services revenue and certain other integration conditions, was $6,073 and paid in three instalments.

The first instalment was made on the closing date of June 1, 2007 and was funded by $3,800 of the operating line of credit. In addition, the Fund issued a standby letter of credit in the amount of $400, which was paid on December 31, 2008 as the vendor performed its transition services obligations. The second instalment of $960 was paid on August 1, 2008. On August 1, 2009, the final instalment relating to this acquisition was made for cash consideration of $930, of which $684 was accrued for as contingent consideration on acquisition in 2007.

(d) Heath Benefits Consulting Inc. ("Heath")

On June 1, 2006, the Fund indirectly acquired all of the issued and outstanding shares of Heath, a Vancouver-based benefits consulting firm with over 90 employees across Canada.

The acquisition was accounted for using the purchase method based on management's best estimate of the fair value of the identifiable assets and liabilities assumed, and the purchase price was $16,853. A portion of the purchase price was conditional on the continuing employment of certain selling shareholders ("salary component of the Heath acquisition") and has been recorded as salary expense over the required employment period to December 2008.

3. BUSINESS ACQUISITIONS (continued)

The second and final instalments related to this acquisition were fully satisfied on June 30, 2008 and December 1, 2008 respectively, through aggregate cash consideration of $1,755 and the issuance of 485,991 Class B LP Units of MS Group LP totaling $3,042.

The expenses related to the salary component of the Heath acquisition for the year ended December 31, 2008 was $1,212.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization December 31, 2009	Net Book Value December 31, 2009
Computer equipment	$ 7,319	$ (2,566)	$ 4,753
Furniture and equipment	6,985	(2,936)	4,049
Leasehold improvements	11,622	(5,091)	6,531
	$ 25,926	$ (10,593)	$ 15,333

	Cost	Accumulated Amortization December 31, 2008	Net Book Value December 31, 2008
Computer equipment	$ 3,657	$ (1,371)	$ 2,286
Furniture and equipment	6,911	(2,205)	4,706
Leasehold improvements	13,474	(4,397)	9,077
	$ 24,042	$ (7,973)	$ 16,069

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization December 31, 2009	Net Book Value December 31, 2009
Customer relationships	$199,557	$ (32,057)	$ 167,500
Customer contracts	27,500	(26,125)	1,375
Proprietary software	46,000	(35,900)	10,100
Internally-developed software	3,169	-	3,169
Purchased software	2,943	(1,428)	1,515
Non-compete agreements	5,000	(5,000)	-
Trade names	70,000	-	70,000
	$354,169	$ (100,510)	$ 253,659

As at December 31, 2009, the internally-developed software remained under development and had not yet been put into use.

5. INTANGIBLE ASSETS (continued)

	Cost	Accumulated Amortization December 31, 2008	Net Book Value December 31, 2008
Customer relationships	$199,708	$ (20,270)	$ 179,438
Customer contracts	32,500	(14,625)	17,875
Proprietary software	46,000	(26,700)	19,300
Purchased software	1,840	(642)	1,198
Non-compete agreements	5,000	(2,188)	2,812
Trade names	70,000	-	70,000
	$355,048	$ (64,425)	$ 290,623

6. GOODWILL

	2009	2008
Balance, beginning of year	$ 299,676	$ 169,451
Acquisition - Shepell•fgi (note 3(b))	-	125,628
Acquisition - Heath (note 3(d))	-	4,597
Acquisition - Cowan (note 3(c))	246	-
Acquisition - Leong & Associates (note 3(a))	870	-
	$ 300,792	$ 299,676

7. BANK INDEBTEDNESS AND LONG-TERM DEBT

	2009	2008
Non-revolving term loans	$ 160,000	$ 137,000
Revolving loans	11,500	7,000
	171,500	144,000
Less: current portion of long-term debt	(11,500)	(7,000)
Less: debt issue costs, net of accumulated amortization	(1,113)	(1,582)
	$ 158,887	$ 135,418

On June 30, 2009, the Fund received an advance under the non-revolving facility of $23,000 to finance the repayment of the promissory note.

At December 31, 2009 the Fund had available and utilized the following credit facilities:

- $160,000 of term loans. The term loans are repayable in full on June 1, 2012 and bear interest at one month banker acceptance (“BA”) rate plus an applicable margin ranging between 2.00% and 2.375%.
- $11,500 of the $15,000 revolving loans available. The revolving loans are BA loans which mature in January 2010, but are eligible for and are renewed on a monthly basis under the terms of the revolving loan until June 1, 2012. The loans bear interest at BA rate plus an applicable margin ranging between 2.00% and 2.375%.
- $Nil of the $5,000 revolving facility (bank indebtedness) available. The overdraft carries interest at prime plus an applicable margin ranging between 2.00% and 2.375%.

7. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

The credit facilities are secured by a general assignment of all of the assets of the Fund. The credit facilities also require the Fund to maintain the following financial covenants on a consolidated basis:

(i) Debt to Adjusted EBITDA ratio shall not exceed 3.5:1.0 for the period up to December 30, 2009 and declining to 3.0:1.0 on December 31, 2009 and 2.5:1.0 on June 30, 2011 and thereafter.
(ii) EBITDA to interest expense ratio of not less than 3.0 to 1.0

EBITDA is defined as net income before interest expense, income taxes (recovery), depreciation, amortization and non-controlling interest. During the year, EBITDA was amended to also exclude the loss provisions associated with the subleases (note 9). Adjusted EBITDA is defined as the rolling twelve months earnings before interest, taxes, depreciation and amortization of the Fund and Shepell•fgi and Leong & Associates.

The Fund complied with all the required financial covenants and the ratios as at December 31, 2009 were 2.7 and 5.9 respectively.

Interest-rate swaps

In connection with the additional $23,000 drawn on the term facility on June 30, 2009, the Fund entered into a new interest-rate swap agreement in the notional amount of $23,000 from June 30, 2009 to and ending on June 1, 2012. This swap was used to fix the variable component of the interest rate at 2.22%, before the applicable margin, for the duration of the term and has been designated as a cash flow hedge. The fair value of the swap as at December 31, 2009 was $(298).

As at December 31, 2009, the fair value of the existing interest-rate swap, previously entered into in connection with the term loan at the total notional amount of $137,000, to fix the variable component of the interest rate at 3.647%, before the applicable margin, and as designated as a cash flow hedge, was $(6,358) (December 31, 2008 – $(11,096)).

Interest expense

Interest expense is comprised of the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest on term loans	$ 8,581	$ 5,197
Accretion of interest on promissory notes (note 8)	3,488	4,191
Interest on Leong & Associates' instalments (note 3(a))	156	41
Interest on revolving loan, bank indebtedness and other charges	517	407
Amortization of debt issue costs	469	355
Swap termination fees	-	196
Interest-rate swap agreements fair value adjustment	-	785
	$ 13,211	$ 11,172

8. PROMISSORY NOTES

	2009	2008
Promissory notes, initial present value	$ 3,690	$ 71,358
Accreted interest	616	4,191
	4,306	75,549
Less: current portion of promissory note	(4,306)	(31,632)
	$ -	$ 43,917

The promissory notes issued as part of the Shepell•fgi acquisition in the amounts of $75,000 and $4,500 are due on July 2, 2009 and July 2, 2010, respectively. The notes are non-interest bearing and are secured by a general assignment of all the assets of the Fund, which is subordinated to the credit facilities. The notes have been recorded at their initial combined present value.

On March 24, 2009, the Fund used the net proceeds from the Offering (note 10) to prepay $51,500 of the $75,000 note, and agreed to pay $23,230 on June 30, 2009, to satisfy the remainder of the note. During the second quarter, the Fund paid the remaining $23,230. To finance the repayment, the Fund utilized the $23,000 senior secured non-revolving term facility with the remaining balance being funded through working capital. Total accretion interest expense related to the $75,000 note for the year December 31, 2009 was $2,872.

The Fund has the option to repay up to 100% of the $4,500 promissory note through the issuance of Units, the number determined by dividing the dollar amount by the then market trading price discounted by 5%, subject to the Fund's ability to issue new Units under the guidance for income trusts that qualify for the four-year transitional relief.

The promissory note also includes a covenant that the Fund and its subsidiaries shall not incur any debt other than permitted debt as defined in the promissory note agreements unless, after the incurrence of such debt, the Fund would have on a pro forma consolidated basis a ratio of debt to adjusted EBITDA of not greater than 4.5:1.0 determined as of the end of the fiscal quarter ending immediately prior to the date of determination. The Fund complied with all the required covenants.

9. OTHER LIABILITIES

	2009	2008
Acquired above-market rent leases	$ 5,221	$ 5,486
Sub-lease losses	3,336	1,766
Deferred lease obligations	1,649	1,359
	$ 10,206	$ 8,611

As part of the Shepell•fgi acquisition, the Fund assumed lease agreements for several offices. The above amounts include the difference between estimated market rates and the lease agreements. The estimated sub-lease losses are as a result of excess office spaces assumed from the the Shepell•fgi and Leong & Associates acquisitions and transactions entered into during the year.

During the year, the Fund sub-leased out, in two separate transactions ("Subleases"), excess office space. As a result of the Subleases, the Fund recognized an aggregate loss of $3,538, which includes a write down of the carrying value of leasehold improvements associated with the sub-leased premises of $1,338. The loss is reported under Other operating expenses.

10. FUND UNITS

The Fund is authorized to issue an unlimited number of Units and an unlimited number of special voting units ("Special Voting Units"). Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund. The Special Voting Units may be issued in series and will only be issued in connection with, or in relation to, Class B LP Units or other securities that are, directly or indirectly, exchangeable for Units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities.

Units are redeemable at any time on demand by the Unitholders up to an aggregate maximum monthly amount of $50. Trustees may, in their sole discretion, waive this limitation. The redemption price is calculated based on the lesser of:

a) 90% of the "market price", as defined in the prospectus, as of the date on which the Units were surrendered for redemption; and

b) 100% of the "closing market price", as defined in the prospectus, on the redemption date.

The following details the issued and outstanding Units and Special Voting Units:

	Units Issued	Special Voting Units	Total Units	Amount
Balance, December 31, 2007	22,192,919	5,591,441	27,784,360	211,833
Exchange of Class B LP Units	437,605	(437,605)	-	4,556
Class A LP Units	12,750,000	-	12,750,000	153,000
Issuance costs	-	-	-	(7,166)
Class B LP Units	-	542,755	542,755	-
Balance, December 31, 2008	35,380,524	5,696,591	41,077,115	$ 362,223
Exchange of Class B LP Units	233,265	(233,265)	-	1,721
Units issued in public offering	6,666,700	-	6,666,700	55,000
Issuance costs, net of future income tax benefits	-	-	-	(2,467)
Treasury Units related to Long-term incentive plan	-	-	-	(810)
Balance, December 31, 2009	42,280,489	5,463,326	47,743,815	$ 415,667

On March 24, 2009, the Fund completed a public offering ("Offering"). Pursuant to the Offering, the Fund issued 6,666,670 Units at a price of $8.25 per unit for cash proceeds of $55,000. The issuance costs, net of future income tax benefits of $1,033, were $2,467.

On May 13, 2009, certain participants of the RSU plan exchanged their awarded Units for new LTIP DSUs (note 12). Pursuant to the exchange, the Fund indirectly re-acquired 277,016 Fund Units, of which 200,000 Units were sold in December 2009 at an average price of $9.431 per unit, for net proceeds of $1,886. The Units were valued at a cost of $11.465 per Unit, resulting in a loss of $407, which has been accounted for through the deficit balance in Unitholders' Capital. In December 2009, 8,429 of the re-acquired Units were also used to satisfy vested RSU awards. The remaining 68,587 Units are being held in treasury and have not been cancelled, and will be used to satisfy future vested RSU rewards.

On December 1, 2008, the Fund issued 242,994 Special Voting Units in connection with the settlement of the third & final instalment of the Heath acquisition.

On October 1, 2008, the Fund issued 56,764 Special Voting Units to satisfy the first instalment of the Leong & Associates acquisition.

10. FUND UNITS (continued)

On June 30, 2008, the Fund issued 242,997 Special Voting Units in connection with the settlement of the second instalment of the Heath acquisition.

On June 2, 2008, as part of the Shepell•fgi acquisition, the Fund completed a public offering and issued 12,750,000 Units at price of $12.00 per unit for cash proceeds of $153,000. The issuance costs, net of future income tax benefits of $3,121, is $7,166.

11. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco, Heath and Leong & Associates own 5,463,326 Class B LP Units of MS Group LP (a subsidiary of the Fund). The Class B LP Units are fully exchangeable for an equal number of Units in the Fund which equates to a non-controlling interest of 11.44% (December 31, 2008 – 13.9%) in the Fund.

	Unit issued	Amount
Balance, December 31, 2007	5,591,441	$ 54,452
Units issued related to Heath acquisition	485,991	3,815
Units issued related to Leong & Associates acquisition	56,764	600
Salary component of Heath acquisition	-	758
Exchanged Units	(437,605)	(4,556)
Share of income for the year	-	1,745
Distributions for the year	-	(5,090)
Balance, December 31, 2008	5,696,591	$ 51,724
Exchanged Units	(233,265)	(1,721)
Share of income for the year	-	1,402
Distributions for the year	-	(5,268)
Balance, December 31, 2009	5,463,326	$ 46,137

12. LONG-TERM INCENTIVE PLAN

The Fund has two types of long-term incentive plans: a restricted stock unit plan (“RSU plan”) and a Deferred Stock Unit Plan (“DSU plan”).

RSU plan

Under the Fund’s RSU plan an individual is awarded a dollar amount, which will be used by the trustees of the RSU plan to purchase Units of the Fund in the open market. The Units will be held by the trustees until such time as ownership vests to each participant. Units will vest within a period of three years from end of the year in respect of which the grant was made, based upon the determination made by the Compensation, Nominating and Corporate Governance Committee (“CNCG Committee”) and/or Board at the time of the grant. Participants will be entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the trustees for a participant will typically be forfeited if the participant resigns or is terminated prior to the applicable vesting date. Forfeited Units will be sold and the proceeds returned to the Fund, or as otherwise directed by the Fund.

The expense recognized for the year ended December 31, 2009 was $599.

12. LONG-TERM INCENTIVE PLAN (continued)

DSU Plan

The Fund's DSU plan offered by its subsidiary, HRCO Inc., received Unitholders' approval on May 13, 2009.

At the option of the Fund, each DSU represents the right of the employee to receive, on a deferred basis: one Fund Unit issued from treasury; or the equivalent cash value; or an award of one exchangeable share of HRCO Inc., subject to such restrictions as the compensation committee may determine. Holders of DSUs receive cash bonuses equivalent to the distributions paid on the Units. DSUs are non-assignable other than by will or the laws of descent and distribution, and generally vest over one to three years. The compensation committee can accelerate the vesting of DSUs at its discretion.

A maximum of 1,750,000 Units or securities exchangeable for Units that are issued and outstanding, may be issued under the DSU Plan.

During the year, the Fund granted 535,284 DSUs primarily to senior management of Shepell•fgi, related to the 2008 acquisition of Shepell•fgi. In addition, certain participants of the RSU plan exchanged their awarded Units under the RSU plan for new LTIP DSUs ("the exchange") on a one for one basis with identical vesting. The exchange resulted in the Fund indirectly re-acquiring 277,016 Fund Units.

The measurement date for the awards for accounting purposes occurred once the DSU plan received Unitholder approval. It is the Fund's intention to settle all of the DSU obligations through the issuance of Units. Consequently, the DSUs will not be re-measured at each reporting period.

As at December 31, 2009, the total LTIP DSUs held by the participants was 812,300 Units and the expense, including bonuses in lieu of distributions, recognized for the year ended December 31, 2009 was $3,003.

13. INCOME TAXES

The Fund currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by the Fund and distributed annually to Unitholders was not, and would not be, subject to taxation in the Fund. For financial statement reporting purposes, the tax deductibility of the Fund's distributions was treated as an exemption from taxation as the Fund distributed and was committed to continue distributing all of its income to its Unitholders. Accordingly, the Fund did not previously record a provision for income taxes, or future income tax assets or liabilities, in respect of the Fund and its flow-through entities. The Fund, however, recorded current and future income tax liabilities relating to the corporate subsidiaries.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT"), received Royal Assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and a real estate investment trust. The Fund is a SIFT, as discussed below.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

13. INCOME TAXES (continued)

A SIFT which was publicly listed on or before October 31, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006.

As a result of the SIFT Rules, the Fund commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, and those of its flow-through entities that are expected to reverse in or after 2011. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse.

On December 4, 2008, the Department of Finance (Canada) announced an acceleration of the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT under the safe harbour rule is 100% of its October 31, 2006 market capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subjected to the Normal Growth Guidelines).

The difference between income taxes calculated using the Fund's effective income tax rates and the amounts that would result from the application of the statutory income tax rates arises from the following:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Income taxes at statutory rates:		
Federal	19.00%	19.50%
Provincial	12.98%	13.00%
	31.98%	32.50%
Income tax provision applied to income before income taxes:		
Combined basic federal and provincial income taxes at statutory rates applied to income from continuing operations	$ 517	$ 1,586
Income taxed in the hands of the Unitholders	(13,091)	(9,401)
Non-deductible expenses	999	645
Adjustment to future income assets and liabilities for change in income tax rate	(1,559)	173
Non-deductible portion of intangible amortization	1,911	1,161
Other	609	174
	$ (10,614)	$ (5,662)

13. INCOME TAXES (continued)

The significant components of future income tax assets and liabilities related to continuing operations are as follows:

	2009	2008
Future income tax assets:		
Fund Unit issuance costs	$ 3,191	$ 4,091
Capital assets	748	740
Loss carryforward	7,532	2,909
Interest-rate swaps	709	-
	$ 12,180	$ 7,740
Future income tax liabilities:		
Intangible assets	$ 24,300	$ 31,825
Other liabilities	59	1,265
	$ 24,359	$ 33,090

The Fund has losses available to offset future taxable income of $27,153, of which $9,517 expire in 2027 and the remainder in 2029.

14. EMPLOYEE FUTURE BENEFITS

The Fund offers a pension benefit plan for its employees, which includes a defined benefit option and a defined contribution option. The defined benefit option was closed to new members effective January 1, 1998.

Under the defined contribution option, each member is required to contribute a specific dollar amount based on the member's job level classification. Each member may elect to make an optional contribution of between 50% and 300% of the member's required contribution. The Fund matches required contributions. For employees with less than 10 years of service, the Fund contributes 50% of optional contributions and for members with 10 or more years, 75% of optional contributions.

The pension fund assets and obligations are measured as at December 31, 2009. Information about the pension plan's defined benefit option is as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Fair value of plan assets	$ 2,855	$ 2,662
Accrued benefit obligation	3,129	2,594
Funded status – surplus (deficit)	$ (274)	$ 68
Plan assets:		
Fair value, beginning of year	$ 2,662	$ 2,897
Actual return on plan assets	206	(287)
Employer contributions	215	288
Benefits paid	(228)	(236)
Fair value, end of year	$ 2,855	$ 2,662

14. EMPLOYEE FUTURE BENEFITS (continued)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Accrued benefit obligation:		
Balance, beginning of year	$ 2,594	$ 3,218
Current service cost	46	55
Interest cost	183	174
Benefits paid	(228)	(236)
Actuarial loss (gains)	534	(617)
Balance, end of year	$ 3,129	$ 2,594
Reconciliation of plan assets to accrued benefit obligation, end of year:		
Fair value of plan assets	$ 2,855	$ 2,662
Accrued benefit obligation	3,129	2,594
Funded status – surplus (deficit)	(274)	68
Unamortized net actuarial gain	190	(335)
Unamortized transitional obligation	179	269
Accrued benefit asset	$ 95	$ 2
End of year allocation of fair value of plan assets (%):		
Pooled Equities Fund	55%	45%
Pooled Bond Fund	45%	55%
	100%	100%

	Year Ended December 31, 2009	Year Ended December 31, 2008
Pension plan cost		
Current service cost	$ 46	$ 55
Interest cost on accrued benefit obligation	183	174
Return on plan assets	(206)	287
Actuarial loss (gain) during the year on accrued benefit obligation	534	(617)
	$ 557	$ (101)
Other adjustments:		
Difference between actual and expected return on plan assets	20	(492)
Amortization of actuarial losses	(545)	791
Transitional amounts	90	90
Net pension plan expense	$ 122	$ 288

Other information about the Fund's defined benefit option is as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Employer contributions	$ 215	$ 288
Benefits paid	$ 228	$ 236

Actuarial valuation for the Fund's pension plan is generally required every three years. The most recent actuarial valuation of the Fund's pension plan was conducted as of December 31, 2006. The next actuarial valuation for funding purposes for the defined benefit pension plan is currently in progress and scheduled to be completed in 2010, with an effective date of December 31, 2009.

14. EMPLOYEE FUTURE BENEFITS (continued)

Weighted average assumptions:

Weighted average of the amounts assumed in accounting for the plan:	Year Ended December 31, 2009	Year Ended December 31, 2008
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	5.75%	7.25%
Discount rate at the end of preceding period used to determine the benefit cost	7.25%	5.50%
Rate of compensation increase used to determine the accrued benefit obligation	3.50%	3.50%
Rate of compensation increase used to determine the benefit cost	3.50%	2.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

The net expense for the Fund's defined contribution option for the year ended December 31, 2009 was $2,268 (for the year ended December 31, 2008 - $2,055). In addition, the employees of Shepell•fgi participate in a Group RRSP program in which Shepell•fgi matches 50% of the first 6% of salary contribution. The related expense for the period ended December 31, 2009 was $600 (for the year ended December 31, 2008 - $327).

15. NET INCOME PER UNIT

Net income per Unit is calculated by dividing net income by the weighted average number of Units outstanding during the year. The following table reconciles the weighted average number of Units outstanding used in computing basic net income per Unit to weighted average number of Units in computing diluted Net income per Unit:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Basic:		
Net income	$ 10,826	$ 8,796
Weighted average number of Units outstanding	40,509,313	29,822,127
Diluted:		
Net income	$ 10,826	$ 8,796
Non-controlling interest	1,402	1,745
Net income available to Unitholders and Class B LP Unitholders	$ 12,228	$ 10,541
Weighted average number of Units outstanding – Basic	40,509,313	29,822,127
Weighted average exchangeable Class B LP Units outstanding	5,584,311	5,539,991
Dilutive effect of LITP – DSU plan	239,858	-
Dilutive effect of Class B LP Units in connection with the Heath acquisition	-	342,583
Weighted average number of Units outstanding - Diluted	46,333,482	35,704,701
Net income per Unit – Basic	$ 0.27	$ 0.30
Net income per Unit – Diluted	$ 0.26	$ 0.30

Due to its anti-dilutive effect, the effect of the potential issuance related to the promissory note has been excluded from the net income per unit calculation.

16. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Accounts receivable	$ (915)	$ (9,258)
Unbilled fees	(1,665)	(3,706)
Income taxes recoverable/payable	(312)	(564)
Prepaid expense and other	668	(1,184)
Deferred implementation costs	(1,096)	-
Accounts payable and accrued liabilities	(840)	4,292
Deferred revenue	(450)	(860)
	$ (4,610)	$ (11,280)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest paid	$ 8,958	$ 5,391
Income taxes paid (refunded)	$ 1,768	$ 637
Promissory notes issued to vendors on acquisition of Shepell•fgi	$ -	$ 71,358

Excluded from the consolidated statements of cash flows were the following non-cash transactions:

For the year ended December 31, 2009, the exchange of RSUs to DSUs (note 12) resulted in an increase in contributed surplus of $1,650, decrease of Unitholders' Capital of $3,176 and a decrease in prepaid expenses and other of $1,526.

17. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at December 31, 2009 the minimum payments not including operating expenses, due in each of the next five years and thereafter, are expected to be as follows for each year ending December 31:

2010	$ 10,352
2011	9,170
2012	7,809
2013	6,881
2014	5,401
Thereafter	35,749
Total	$ 75,362

The Fund is party to various subleases to which the Fund would be liable for the rental payment in the case of a default by the subtenants. The minimal payments related to these premises have been included above. The terms of the subleases extend through July 2022 and the aggregate sublease income on these subleases is $22,407. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

17. COMMITMENTS (continued)

Subsequent to December 31, 2009, the Fund entered into a new lease agreement for additional space at its principle office location. The terms of the lease extends through August 2024, and will result in additional average annual rent of $2,061.

18. CONTINGENCIES

From time to time, the Fund is involved in routine litigation incidental to the Fund's business. Management believes that adequate provisions have been made where required and the ultimate resolution with respect to any claim will not have a material adverse effect on the financial position or results of operations of the Fund.

19. ECONOMIC DEPENDENCE

Revenue from the Fund’s largest client was approximately 5% of the Fund’s total revenue for the year ended December 31, 2009 (for the year ended December 31, 2008 – 7%). The Fund’s top 10 clients, in the aggregate, accounted for approximately 22% of the total revenue for the year ended December 31, 2009 (for the year ended December 31, 2008 – 24%).

Accounts receivable from the Fund’s largest client was approximately 1% of the total accounts receivable as at December 31, 2009 (December 31, 2008 – 2%). The Fund’s top 10 clients accounted for approximately 19% of the Fund’s total accounts receivable as at December 31, 2009 (December 31, 2008 – 23%).

20. SEGMENTED INFORMATION

The Fund’s operations consist of one reporting segment, which provides human resource, consulting and outsourcing services. Geographic data is as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Revenue:		
Canada	$ 308,464	$ 231,928
United States	23,239	17,785
	$ 331,703	$ 249,713

	2009	2008
Assets:		
Canada	$ 654,696	$ 680,903
United States	6,850	8,962
Liabilities:		
Canada	$ 306,299	$ 369,118
United States	2,902	2,617

21. MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its cash (bank indebtedness), long-term debt, promissory notes, non-controlling interests and Unitholders' equity. The Fund's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining the distributions to its Unitholders and the growth of the Fund's business through organic growth and new acquisitions.

The Fund manages the capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as taking into consideration changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to Unitholders, issue new or repurchase existing Units and assume new or repay existing debt. The Fund will also review its level of equity in the context of the change in taxation impacting the Fund commencing in 2011.

The credit facilities and promissory notes require the Fund to maintain certain financial covenants. Management also uses these ratios as key indicators in managing the Fund's capital.

Distributions are made to Unitholders monthly. Various ratios of distributions to available cash, cash from operating activities and EBITDA are used by management and the Board of Trustees to assist with the determination of distributions.

22. FINANCIAL INSTRUMENTS

Fair value represents management's estimates of the market value at a given point in time. The fair value of the Fund's financial assets and liabilities approximate their carrying values due to their short-term nature or, in relation to long-term debt instruments, because they bear interest at market rates.

The following table summarizes information regarding the carrying and fair value of the Fund's financial instruments:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Held for trading [(i)]	$ 2,085	$ (821)
Loans and receivables [(ii)]	53,791	52,930
Other financial liabilities [(iii)]	230,254	272,759

(i) Includes cash and derivative financial instruments not designated as hedges.
(ii) Includes accounts receivable.
(iii) Includes accounts payable and accrued liabilities, unitholder distributions payable, bank indebtedness, future considerations related to acquisition, long-term debt, promissory notes and other liabilities.

22. FINANCIAL INSTRUMENTS (continued)

The fair value hierarchy of financial instruments measured at fair value on the balance sheet is as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Cash	1,606	-	-
Foreign exchange contracts asset	-	479	-
Financial Liabilities:			
Interest-rate swaps liability	-	6,656	-

The fair value of interest-rate swaps was determined using estimated future discounted cash flows using a comparable market rate of interest. Since fair value estimates represent point-in-time estimates, they may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties, and are a matter of significant judgment; as a result, changes in assumptions could significantly affect these estimates.

Interest rate risk

The Fund is subject to interest rate risk as its secured term loan bears interest at market rates. Interest-rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt outstanding and related overall cost of borrowing. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based.

A sensitivity analysis that assumes interest rates increased or decreased by 50 basis points with all other variables held constant would result in an increase (decrease) of the Fund's interest expense, excluding the interest subjected to interest-rate swap agreements, by $68.

Credit risk

The Fund's exposure to credit risk is limited to carrying amount of cash, accounts receivable and foreign exchange contracts recognized at the balance sheet date.

The aging of fees receivable was:

	Year Ended December 31, 2009	**Year Ended December 31, 2008**
Current	$ 22,309	$ 21,353
Past due 1 - 30 days	12,835	13,443
Past due 31 - 90 days	11,298	9,592
Past due over 90 days	7,236	8,195
	$ 53,678	$ 52,583

22. FINANCIAL INSTRUMENTS (continued)

The Fund believes that the credit risk of accounts receivable is limited for the following reasons:

(1) Risk associated with concentration of credit risk with respect to accounts receivable is limited due to the credit rating of the Fund's top 10 clients.

(2) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

The Fund determines its allowance for doubtful accounts based on it's best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectible are written off. The allowance for doubtful accounts as at December 31, 2009 was $632 (December 31, 2008 - $683).

The credit risk on cash and foreign exchange contracts is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Foreign exchange risk

The Fund realizes a portion of sales in U.S. dollars and has operations in the United States and thus is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars for the year ended December 31, 2009 was $8,839.

The Fund entered into multiple forward exchange contracts to manage foreign exchange exposure on anticipated U.S. dollars sales transactions and collection of the related accounts receivables. These contracts have maturities of less then two years. As at December 31, 2009 the aggregate amount of contracts outstanding was US$6,359. As the Fund does not account for these forward contracts using the hedge accounting, these contracts are measured at fair value with changes recognized in earnings. The unrealized gain as at December 31, 2009 was $479.

As at December 31, 2009, the Fund's net exposure to currency risk through its current assets and liabilities dominated in U.S. dollars was US$3,727. Assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollars would result in an increase (decrease) of $196 in the Fund's net income.

Liquidity risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they fall due. The Fund manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 21.

The Fund's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, capital expenditures, distributions to Unitholders and acquisition funding requirements.

The Fund has historically utilized cash from operations to satisfy the above needs, with the exception of acquisition funding requirements.

The Fund has two components of bank indebtedness: a revolving facility which matures monthly but is eligible for renewal until expiry in 2012, and a non-revolving facility which matures in 2012. Since the Fund's current cash position could not accommodate its full repayment, a refinancing scenario may result. There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Fund.

22. FINANCIAL INSTRUMENTS (continued)

The accounts payable and accrued liabilities and Unitholder distributions payable are due for payment within twelve months of the balance sheet date, along with the second instalment related to the Leong & Associates payable in January 2010.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or regrouped to conform with the financial presentation adopted in the current year.