Consolidated Financial Statements of

MORNEAU SOBECO INCOME FUND

For the Years Ended December 31, 2008 and 2007

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.

“William Morneau”

William Morneau
Chairman and CEO

“Nancy Lala”

Nancy Lala
Chief Financial Officer

KPMG LLP
Chartered Accountants
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

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, 2008 and 2007 and the consolidated statements of income, other comprehensive income and deficit 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, 2008 and 2007 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 3, 2009

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

	2008	2007
Assets		
Current assets:		
Cash	$ -	$ 2,898
Accounts receivable	52,930	27,855
Unbilled fees	15,861	2,067
Income taxes recoverable	1,484	388
Prepaid expenses and other	5,482	2,016
	75,757	35,224
Future income taxes (note 14)	7,740	3,258
Interest-rate swaps (note 7)	-	785
Capital assets (note 4)	17,267	10,186
Intangible assets (note 5)	289,425	115,524
Goodwill (note 6)	299,676	169,451
	$ 689,865	$ 334,428
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 504	$ -
Accounts payable and accrued liabilities	40,033	12,507
Deferred revenue	2,245	807
Current portion of long-term debt (note 7)	7,000	-
Current portion of promissory note (note 8)	31,632	-
Future consideration related to acquisition (note 3)	684	960
Unitholder distributions payable (including non-controlling)	3,233	2,045
	85,331	16,319
Insurance premium liabilities:		
Payable to insurance companies	12,037	9,946
Less related cash and investments held	(12,037)	(9,946)
	-	-
Long-term debt (note 7)	135,418	34,913
Promissory notes (note 8)	43,917	-
Interest-rate swaps and foreign exchange contracts	11,917	-
Future consideration related to acquisition (note 3)	1,727	1,084
Other liabilities (note 9)	8,611	182
Future income taxes (note 14)	33,090	29,810
	320,011	82,308
Non-controlling interests (note 11)	51,724	54,452
Unitholders' equity	318,130	197,668
	$ 689,865	$ 334,428

Commitments and Contingencies (notes 3, 7,18 and 19)

See accompanying notes to consolidated financial statements

"Robert Chisholm"
Robert Chisholm
Trustee, Audit Committee Chair

"William Morneau"
William Morneau
Trustee, Chairman and CEO

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenue		
Fees	$ 227,235	$ 124,313
Commissions	21,940	22,201
Other	538	572
	249,713	147,086
Expenses		
Salary, benefit and contractor expenses	156,707	87,987
Other operating	42,895	28,256
Amortization of capital assets (note 4)	3,665	2,350
Amortization of intangible assets (note 5)	30,395	15,324
Interest expense (note 7)	11,172	1,718
	244,834	135,635
Income before income taxes and non-controlling interest	4,879	11,451
Income taxes (recovery) (note 14)		
Current	27	322
Future	(5,689)	(4,110)
	(5,662)	(3,788)
Income before non-controlling interest	10,541	15,239
Non-controlling interest (note 11)	(1,745)	(3,119)
Net income	8,796	12,120
Other comprehensive income (loss)		
Unrealized loss on interest rate cash flow hedges	(11,096)	-
Comprehensive income (loss) for the year	$ (2,300)	$ 12,120
Net income per Unit (basic and diluted) (note 16)	$ 0.295	$ 0.549

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007
(In thousands of dollars)

	Unitholders' Capital	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2006	$ 210,607	$ -	$ (6,988)	$ 203,619
Exchange of Class B LP Units	1,226	-	-	1,226
Net income for the year	-	-	12,120	12,120
Distributions	-	-	(19,297)	(19,297)
Balance, December 31, 2007	$ 211,833	$ -	$ (14,165)	$ 197,668
Exchange of Class B LP Units (note 11)	4,556	-	-	4,556
Issuance of Units (note 10)	153,000	-	-	153,000
Issuance costs, net of future income tax benefits (note 10)	(7,166)	-	-	(7,166)
Net income for the year	-	-	8,796	8,796
Comprehensive loss for the year	-	(11,096)	-	(11,096)
Distributions (note 12)	-	-	(27,628)	(27,628)
Balance, December 31, 2008	$ 362,223	$ (11,096)	$ (32,997)	$ 318,130

See accompanying notes to consolidated financial statements

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash provided by (used in):		
Operating activities		
Net income	$ 8,796	$ 12,120
Items not involving cash:		
Amortization of capital assets	3,665	2,350
Amortization of intangible assets	30,395	15,324
Amortization of debt issue costs (note 7)	355	50
Straight lining of contractual rent	915	-
Amortization of leasehold inducement	(277)	-
Sub-lease loss	(339)	-
Non-controlling interest of Class B LP Units	1,745	3,119
Future income taxes (recovery)	(5,689)	(4,110)
Salary component of Heath acquisition (note 3(d))	1,212	999
Accretion on promissory notes (note 7)	4,191	-
Fair value of interest-rate swap agreements (note 7)	785	55
Fair value of forward exchange contracts (note 23)	821	-
	46,575	29,907
Change in non-cash operating working capital (note 17)	(11,280)	(2,029)
	35,295	27,878
Financing activities		
Issuance of units (note 10)	153,000	-
Expenses related to issuance of units (note 10)	(10,287)	-
Proceeds from long-term debt (note 7)	137,000	-
Repayment of term loan (note 7)	(35,000)	-
Deferred financing cost (note 7)	(1,854)	-
Operating line of credit (note 7)	7,000	-
Distributions paid	(31,530)	(25,007)
	218,329	(25,007)
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))	(1,360)	(3,783)
Business acquisition – Heath (note 3(d))	(1,755)	-
Cash assumed from acquisitions (note 3(a), (b) & (c))	343	256
Purchase of capital assets	(3,081)	(1,703)
	(257,026)	(5,230)
Net decrease in cash for the year	(3,402)	(2,359)
Cash, beginning of year	2,898	5,257
Cash (bank indebtedness), end of year	$ (504)	$ 2,898

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 the largest Canadian-owned firm providing human resource consulting and outsourcing services. The firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees. With over 2,200 employees in offices across North America, the Fund offers its services to organizations that are situated in Canada, in the United States and around the globe.

On June 2, 2008, the Fund indirectly acquired substantially all the assets of Shepell FGI LP ("Shepell•fgi") (Note 3(b) – Business Acquisitions). The primary services provided by Shepell•fgi are employee assistance programs ("EAP"), employee health management and workplace training and education.

On October 1, 2008, a subsidiary of the Fund acquired all the issued and outstanding shares of Leong & Associates Actuaries And Consultants Inc. ("Leong & Associates"), a British Columbia based business and one of the largest independent actuarial and pension consulting firms in Western Canada (Note 3(a) – Business Acquisitions).

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")	86.1
Morneau Sobeco Group Limited Partnership ("MS Group LP")	86.1
Morneau Sobeco, Ltd. ("MSUS")	86.1
HRCO Inc ("HRCO") (formerly Morneau Sobeco Corporation)	86.1
FGI World France S.A.R.L.	86.1
FGI World New Caledonia	86.1
1137273 Ontario Limited	86.1
2183573 Ontario Inc	86.1
Innu-Med Inc.	41.3

All material 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The most significant estimates that the Fund is required to make relate to the recoverability of its intangibles, 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.

The estimates of reported value of these assets and liabilities may also depend upon, among other things, assumptions regarding economical market conditions, income taxes, interest rates, the availability, cost and terms of financing, the impact of present or future legislation or regulation and debt incurred by the Fund.

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.

(c) Revenue recognition and unbilled fees

Fees for administrative, actuarial and consulting services are recognized when 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 straight-line basis over the term of the contract. Incremental usage is recognized when the minimum usage threshold is exceeded.

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) Foreign currency translation

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. Revenue and expenses have been translated at rates in effect on the transaction dates. Exchange gains or losses are reflected in income for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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%
Computer software	Declining balance	30% to 50%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Over term of the lease

(f) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Intangible assets acquired through acquisitions or business combinations are initially recognized at fair value based on an allocation of the purchase price. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives. 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.

Amortization is calculated using the straight-line method based on following estimated useful lives:

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

(g) 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 flow 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.

(h) 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 the Fund and the carrying value of its net assets including goodwill. An impairment loss will be recognized if the carrying amount of the Fund’s net assets exceeds its estimated fair value.

(i) Insurance premium liabilities and related cash and investments

In its capacity as consultants, the Fund collects premiums from insureds 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Long-term incentive plan

The Fund has a long-term incentive plan under which participants are eligible to receive Units. The amount awarded under this plan is recorded as salary, benefit and contractor expenses in line with the vesting dates which range from one to three years.

(k) 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 effective January 1, 1998 and included 7 employees, 7 retirees and 51 deferred vested members as at December 31, 2008. 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.

(l) 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.

(m) 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.

(n) Financial instruments

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the income statement. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The Fund had neither available-for-sale nor held-to-maturity instruments.

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and are included in the underlying balance.

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 highly effective, changes in the fair value of the interest-rate swap are recognized in 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.

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

(o) New accounting policies

Effective January 1, 2008, the Fund adopted the following new accounting standards:

(i) Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which replace the existing Section 3861, *Financial Instruments - Disclosure and Presentation*. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections place an increased emphasis on disclosures and presentation regarding the risks associated with both recognized and unrecognized financial instruments and how the Fund manages those risks.

(ii) Section 1535, *Capital Disclosure*. This section requires disclosure of the Fund's objectives, policies and processes for managing capital, quantitative data about what the Fund regards as capital and whether the Fund has complied with any capital requirements.

These new standards relate to disclosures and presentation only and did not have an impact on the Fund's financial results or position. Disclosures required as a result of adopting the above sections can be found in notes 22 and 23.

(p) Future accounting changes

(i) Goodwill and intangible assets - In February 2008, the CICA issued new Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new standard will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This 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. This Standard is not expected to impact the Fund's consolidated financial statements.

(ii) International Financial Reporting Standards - The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian Generally Accepted Accounting Principles ("GAAP") with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Fund is currently assessing the new standards and has not yet finalized the impact on its consolidated financial statements.

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 business and one of the largest independent actuarial and pension consulting firms 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.

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. The purchase price allocation is preliminary pending finalization of valuations of the net identifiable assets acquired and liabilities assumed. The preliminary estimated fair values of the assets and liabilities assumed in the acquisition are as follows:

Assets and liabilities acquired:	
Cash	$ 71
Accounts receivable	1,145
Unbilled fees	132
Prepaid expenses and other	57
Capital assets	19
Intangible assets	5,797
Accounts payable and accrued liabilities	(682)
Other liabilities	(140)
Future income tax liabilities	(1,662)
	$ 4,737
Consideration:	
Cash	$ 2,410
Exchangeable Units	600
Future considerations	1,727
	$ 4,737

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

3. BUSINESS ACQUISITION (continued)

(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 estimated 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 relative fair value of the identifiable assets and liabilities acquired.

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 relationship	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

As a result of the transaction being an asset purchase, a subsidiary of the Fund has approximately $224,000 of eligible tax deductions which are deductible from taxable income at 7% per annum on a declining balance basis.

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

3. BUSINESS ACQUISITION (continued)

(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 is based on the final pension administration and actuarial consulting services revenue and certain other integration conditions and is expected to be approximately $6 million. The acquisition will be 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. The third instalment is subject to the purchase price adjustment and will be payable on August 1, 2009.

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

Assets and liabilities acquired:	
Cash	$ 256
Prepaid expenses and other	6
Intangible assets	5,821
Accounts payable and accrued liabilities	(256)
	$ 5,827
Consideration:	
Cash	$ 3,783
Instalment 2 paid on August 1, 2008	960
Consideration subjected to performance of transition services obligation paid on December 31, 2008	400
Future consideration	684
	$ 5,827

These consolidated financial statements include the results of the Cowan DB business from the date of acquisition on June 1, 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 purchase price is $16,853. The consideration was satisfied primarily through cash, the assumption and repayment of the Heath debt and the issuance of Class B LP Units of MS Group LP based on a predetermined value of $12.52 per unit.

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 ACQUISITION (continued)

The expenses related to the salary component of the Heath acquisition for the year ended December 31, 2008 and 2007 were $1,212 and $999, respectively. The expense for the year ended December 31, 2008 included an adjustment as a result of the finalization of the contingent consideration.

The acquisition has been accounted for by the purchase method based on management's best estimate of the relative fair value of the identifiable assets and liabilities assumed. The purchase price has been accounted as follows:

Assets and liabilities acquired:	
Cash	$ 827
Accounts receivable	1,530
Income taxes recoverable	66
Prepaid expenses and other	101
Capital assets	365
Intangible assets	8,090
Goodwill	7,776
Bank indebtedness	(1,734)
Accounts payable and accrued liabilities	(969)
Future income tax liability	(1,923)
Payable to insurance companies	(3,156)
Related cash and investments held	3,156
	$ 14,129
Consideration:	
Cash	$ 2,203
Debt assumed and repaid	4,648
Exchangeable Units	10,002
	$ 16,853
Salary component of the Heath acquisition	(2,724)
	$ 14,129

These consolidated financial statements include the results of Heath from the date of acquisition on June 1, 2006.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization December 31, 2008	Net Book Value December 31, 2008	Net Book Value December 31, 2007
Computer equipment	$ 3,657	$ (1,371)	$ 2,286	$ 1,201
Computer software	1,840	(642)	1,198	230
Furniture and equipment	6,911	(2,205)	4,706	2,381
Leasehold improvements	13,474	(4,397)	9,077	6,374
	$ 25,882	$ (8,615)	$ 17,267	$ 10,186

Amortization for the years ended December 31, 2008 and 2007 was $3,665 and $2,350, respectively.

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization December 31, 2008	Net Book Value December 31, 2008	Net Book Value December 31, 2007
Customer relationships	$199,708	$ (20,270)	$ 179,438	$ 92,666
Customer contracts	32,500	(14,625)	17,875	858
Proprietary software	46,000	(26,700)	19,300	22,000
Non-compete agreements	5,000	(2,188)	2,812	-
Trade names	70,000	-	70,000	-
	$353,208	$ (63,783)	$ 289,425	$ 115,524

Amortization for the years ended December 31, 2008 and 2007 was $30,395 and $15,324, respectively.

6. GOODWILL

	2008	2007
Balance, beginning of year	$ 169,451	$ 169,451
Acquisition - Shepell•fgi (note 3(b))	125,628	-
Acquisition - Heath (note 3(d))	4,597	-
	$ 299,676	$ 169,451

$3,179 of goodwill related to the Heath acquisition was recognized as part of the first instalment paid on June 1, 2006.

7. BANK INDEBTEDNESS AND LONG-TERM DEBT

	2008	2007
Non-revolving term loan	$ 137,000	$ 35,000
Revolving loans	7,000	-
	144,000	35,000
Less: current portion of long-term debt	(7,000)	-
Less: debt issue costs, net of accumulated amortization	(1,582)	(87)
	$ 135,418	$ 34,913

New credit agreement

As part of the Shepell•fgi acquisition the Fund entered into a new credit agreement with a syndicate of Canadian chartered banks for a period of four years maturing on June 1, 2012. Under the agreement, the following credit facilities are available:

- $20,000 senior secured revolving facility ("revolving loans").
- $137,000 senior secured non-revolving term loan ("term loan").
- $40,000 senior secured non-revolving delayed draw term facility. This facility shall be available until July 2, 2009 by way of a single draw to fund a portion of the $75,000 promissory note issued in connection with the Shepell•fgi acquisition.

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

The interest rates for the facilities are floating, based on a margin over certain reference rates of interest. The applicable margin may vary up and down depending on the ratio of the Fund's consolidated debt to Adjusted EBITDA as calculated in the new credit agreement. Adjusted EBITDA is defined as the rolling twelve months earnings before interest, taxes, deprecation and amortization of the Fund, Shepell•fgi and Leong & Associates.

The credit facilities are secured by a general assignment of all the assets of the Fund. The new credit agreement also requires 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, 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. The Fund complied with all the required covenants and the ratios as at December 31, 2008 were 3.07:1 and 6.6:1, respectively.

At December 31, 2008 the Fund has utilized the following credit facilities:

- $137,000 of term loan. The term loan is repayable in full on June 1, 2012 and bears interest at one month banker acceptance ("BA") rate plus an applicable margin.
- $7,000 of revolving loans which comprised of a BA loan of $5,000 and a Prime rate loan of $2,000. Both loans are eligible for renewal under the terms of the revolving loan until June 1, 2012. The loans bear interest at banker acceptance rate or prime rate plus an applicable margin, respectively.
- Bank indebtedness under the revolving facilities. The overdraft carries interest at prime plus an applicable margin.

As a result of the new credit agreement, the Fund wrote off the remaining $74 of debt issue costs related to the previous credit agreement and incurred $1,854 of new costs.

Interest-rate swap

In connection with the term loan, the Fund entered into new interest-rate swap agreements for a total notional amount of $102,000, increasing to $137,000 from July 2, 2008 to and ending on June 1, 2012. These swaps are used to fix the variable component of the interest rate at 3.647%, before the applicable margin, for the duration of the loan and have been designated as cash flow hedges. The fair value of the swaps as at December 31, 2008 was $(11,096).

In second quarter the Fund also terminated its existing swap agreements associated with the original $35,000 borrowing and incurred a loss of $282, which represents a mark to market adjustment of $196 on the cancellation date and the write off the remaining fair value of $86. These swap agreements were not designated as cash flow hedges and as such are included in interest expense.

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

Interest expense

Interest expense is comprised of the following:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Interest on term loan	$ 5,197	$ 1,522
Accretion of interest on promissory notes (note 8)	4,191	-
Interest on Leong & Associates' instalments (note 3(a))	41	-
Interest on revolving loan, bank indebtedness and other charges	407	91
Amortization of debt issue costs	355	50
Swap termination fees	196	-
Interest-rate swap agreements fair value adjustment	785	55
	$ 11,172	$ 1,718

8. PROMISSORY NOTES

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 of $71,358 plus accreted interest to date of $4,191. Since the Fund has available $40,000 senior secured non-revolving delayed draw term facility to cover a portion of the $75,000 due on July 2, 2009 only $31,632 has been reflected under current liability.

The Fund has the option to repay up to 50% of the $75,000 promissory note and 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 effect of this potential issuance has been excluded from the net income per unit calculation since the effect would be anti-dilutive.

The promissory notes also include 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

	2008	2007
Acquired above-market rent leases	$ 5,486	$ -
Sub-lease losses	1,766	-
Deferred lease obligations	1,359	182
	$ 8,611	$ 182

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 Shepell•fgi and Leong & Associates acquisitions.

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.

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, 2006	22,062,916	5,721,444	27,784,360	$ 210,607
Exchange of Class B LP Units	130,003	(130,003)	-	1,226
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 – (i)	12,750,000	-	12,750,000	153,000
Issuance costs – (i)	-	-	-	(7,166)
Class B LP Units – (ii)	-	242,997	242,997	-
Class B LP Units – (iii)	-	56,764	56,764	-
Class B LP Units – (iv)	-	242,994	242,994	-
Balance, December 31, 2008	35,380,524	5,696,591	41,077,115	$ 362,223

(i) 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.

(ii) 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.

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

(iv) 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.

11. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco, Heath and Leong & Associates own 5,696,591 Class B LP Units of MS Group LP. 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 13.9% (December 31, 2007 – 20.1%) in the Fund. Some of the Class B LP Units were subordinated in their rights to receive distributions.

Distributions on the Subordinated Class B LP Units were subordinated in favour of the Fund Units and the Non-subordinated Class B LP Units. The distributions on the Subordinated Class B LP Units were paid at the end of a fiscal quarter to the extent that an average monthly distribution of at least $0.06875 per Unit and Non-subordinated Class B LP Unit in respect of that quarter had been paid. On October 16, 2007, the Audit Committee of the Fund declared that the conditions of the subordination provisions had been satisfied and the subordination end date was determined to be September 30, 2007.

	Class B LP Units Issued			
	Subordinated	Non-subordinated	Total	Amount
Balance, December 31, 2006	4,095,060	1,626,384	5,721,444	$ 56,520
Exchange Units	-	(130,003)	(130,003)	(1,226)
Subordinated conditions met	(4,095,060)	4,095,060	-	-
Salary component of Heath acquisition				999
Share of income for the year				3,119
Distribution for the year				(4,960)
Balance, December 31, 2007	-	5,591,441	5,591,441	54,452
Units issued related to Heath acquisition		485,991	485,991	3,042
Units issued related to Leong & Associates acquisition		56,764	56,764	600
Salary component of Heath acquisition				758
Heath 3rd instalment excluding salary component				773
Exchange Units	-	(437,605)	(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	5,696,591	$ 51,724

12. DISTRIBUTIONS TO UNITHOLDERS

The Board of Trustees determines the amount of distributions. The Fund's Declaration of Trust provides that distributions must be made to ensure that the Fund will not be liable for ordinary income taxes under the *Income Tax Act (Canada)*. Any taxable income of the Fund that is unavailable for cash distribution will be distributed to Unitholders in the form of additional Units, which Units will be immediately consolidated such that each Unitholder will hold after consolidation the same number of Units as the Unitholder held prior to the distribution, subject to certain exceptions.

12. DISTRIBUTIONS TO UNITHOLDERS (continued)

Distributions announced during the year ended December 31, 2008 and 2007 were as follows:

Unitholder record date	Total	Per Unit	Paid or payable for the year ended December 31, 2008
Trust Units			
January 31, 2008	$ 1,635	$ 0.07356	February 15, 2008
February 28, 2008	1,642	0.07356	March 17, 2008
March 31, 2008	1,642	0.07356	April 15, 2008
April 30, 2008	1,643	0.07356	May 15, 2008
May 30, 2008	1,643	0.07356	June 16, 2008
June 30, 2008	2,763	0.07871	July 15, 2008
July 31, 2008	2,768	0.07871	August 15, 2008
August 29, 2008	2,771	0.07871	September 16, 2008
September 30, 2008	2,779	0.07871	October 15, 2008
October 31, 2008	2,779	0.07871	November 17, 2008
November 28, 2008	2,779	0.07871	December 15, 2008
December 31, 2008	2,784	0.07871	January 15, 2009
	$ 27,628	$ 0.91877	
Class B LP Units			
Non-subordinated			
January 31, 2008	$ 409	$ 0.07356	February 15, 2008
February 28, 2008	403	0.07356	March 17, 2008
March 31, 2008	401	0.07356	April 15, 2008
April 30, 2008	400	0.07356	May 15, 2008
May 30, 2008	400	0.07356	June 16, 2008
June 30, 2008	447	0.07871	July 15, 2008
July 31, 2008	441	0.07871	August 15, 2008
August 29, 2008	439	0.07871	September 16, 2008
September 30, 2008	431	0.07871	October 15, 2008
October 31, 2008	435	0.07871	November 17, 2008
November 28, 2008	435	0.07871	December 15, 2008
December 31, 2008	449	0.07871	January 15, 2009
	$ 5,090	$ 0.91877	

Unitholder record date	Total	Per Unit	Paid or payable for the year ended December 31, 2007
Trust Units			
January 31, 2007	$ 1,517	$ 0.06875	February 15, 2007
February 28, 2007	1,517	0.06875	March 15, 2007
March 30, 2007	1,623	0.07356	April 16, 2007
April 30, 2007	1,623	0.07356	May 15, 2007
May 31, 2007	1,623	0.07356	June 15, 2007
June 29, 2007	1,623	0.07356	July 16, 2007
July 31, 2007	1,623	0.07356	August 15, 2007
August 31, 2007	1,627	0.07356	September 17, 2007
September 28, 2007	1,627	0.07356	October 15, 2007
October 31, 2007	1,631	0.07356	November 15, 2007
November 30, 2007	1,631	0.07356	December 17, 2007
December 31, 2007	1,632	0.07356	January 15, 2008
	$19,297	$ 0.87310	

12. DISTRIBUTIONS TO UNITHOLDERS (continued)

Class B LP Units

Non-subordinated			
January 31, 2007	$ 112	$ 0.06875	February 15, 2007
February 28, 2007	112	0.06875	March 15, 2007
March 30, 2007	120	0.07356	April 16, 2007
April 30, 2007	120	0.07356	May 15, 2007
May 31, 2007	120	0.07356	June 15, 2007
June 29, 2007	120	0.07356	July 16, 2007
July 31, 2007	120	0.07356	August 15, 2007
August 31, 2007	116	0.07356	September 17, 2007
September 28, 2007	116	0.07356	October 15, 2007
October 31, 2007	412	0.07356	November 15, 2007
November 30, 2007	411	0.07356	December 17, 2007
December 31, 2007	411	0.07356	January 15, 2008
	$ 2,290	$ 0.87310	
Subordinated			
March 30, 2007	$ 864	$ 0.21106	April 16, 2007
June 29, 2007	903	0.22068	July 16, 2007
September 28, 2007	903	0.22068	October 15, 2007
	$ 2,670	$ 0.65242	

13. LONG-TERM INCENTIVE PLAN

Senior management is eligible to participate in Morneau Sobeco's Long-Term Incentive Plan ("LTIP"), which is designed to align compensation with the performance of the Fund's subsidiaries and to aid in the retention of a select group of senior professionals. The Fund's Compensation, Nominating and Corporate Governance Committee of the Board of Trustees determines (i) who will participate in the LTIP; (ii) the level of participation; and (iii) the time or times when LTIP awards will vest or be paid to each participant.

Pursuant to the LTIP, Morneau Sobeco sets aside a pool of funds in an amount determined by the Board. Morneau Sobeco or a trustee purchases Units in the market with this pool of funds and holds the Units until such time as ownership vests to each participant. Generally, Units will either vest after a period of one to three years, or in equal amounts over a period of three years following the grant of the awards. LTIP participants are entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the trustee for an LTIP participant will be forfeited if the participant resigns or is terminated prior to the applicable vesting date and those Units will be sold and the proceeds returned to Morneau Sobeco, or as otherwise directed.

Amounts awarded under the terms of the LTIP since inception of the plan and their associated expenses by year based on vesting periods are summarized as follow:

Year awarded	Year units purchased	Award amount	Expense by year - December 31				
			2007	2008	2009	2010	2011
2006	2007	$ 386	$ 146	$ 198	$ 42	$ -	$ -
2007	2008	1,340	-	484	439	417	-
2008	2008	2,046	-	907	591	334	214
		$ 3,772	**$ 146**	**$ 1,589**	**$ 1,072**	**$ 751**	**$ 214**

13. LONG-TERM INCENTIVE PLAN (continued)

Once awarded, the LTIP amount to be recognized as an expense in future periods is classified as a prepaid expense on the consolidated balance sheet. As at December 31, 2008, the amount recorded under prepaid is $2,037. The expense recognized for the year ended December 31, 2008 was $1,589 (for the year ended December 31, 2007 - $129). Under the LTIP, the Fund redeemed proceeds of $17 related to 2006 awards forfeited.

14. 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.

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 SFIT 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).

14. INCOME TAXES (continued)

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, 2008	Year Ended December 31, 2007
Income taxes at statutory rates:		
Federal	19.50%	22.12%
Provincial	13.00%	12.06%
	32.50%	34.18%
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	$ 1,586	$ 3,914
Income taxed in the hands of the Unitholders	(9,401)	(7,486)
Non-deductible expenses	645	474
Adjustment as a result of new SIFT rules	-	2,670
Adjustment to future income assets and liabilities for change in income tax rate	173	(2,938)
Non-deductible portion of intangible amortization	1,161	-
Other	174	(422)
	$ (5,662)	$ (3,788)

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

	2008	2007
Future income tax assets:		
Fund Unit issuance costs	$ 4,091	$ 2,581
Capital assets	740	652
Loss carryforward (expiring in 2027)	2,909	-
Other	-	25
	$ 7,740	$ 3,258
Future income tax liabilities:		
Intangible assets	$ 31,825	$ 29,810
Other liabilities	1,265	-
	$ 33,090	$ 29,810

15. 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.

15. EMPLOYEE FUTURE BENEFITS (continued)

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, 2008. Information about the pension plan's defined benefit option is as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Fair value of plan assets	$ 2,662	$ 2,897
Accrued benefit obligation	2,594	3,218
Funded status – surplus (deficit)	$ 68	$ (321)
Plan assets:		
Fair value, beginning of year	$ 2,897	$ 2,562
Actual return on plan assets	(287)	108
Employer contributions	288	285
Benefits paid	(236)	(58)
Fair value, end of year	$ 2,662	$ 2,897
Accrued benefit obligation:		
Balance, beginning of year	$ 3,218	$ 3,164
Current service cost	55	91
Interest cost	174	161
Benefits paid	(236)	(58)
Actuarial gains	(617)	(140)
Balance, end of year	$ 2,594	$ 3,218
Reconciliation of plan assets to accrued benefit obligation, end of year:		
Fair value of plan assets	$ 2,662	$ 2,897
Accrued benefit obligation	2,594	3,218
Funded status – surplus (deficit)	68	(321)
Unamortized net actuarial gain	(335)	(36)
Unamortized transitional obligation	269	359
Accrued benefit asset	$ 2	$ 2
End of year allocation of fair value of plan assets (%):		
Pooled Equities Fund	45%	45%
Pooled Bond Fund	55%	55%
	100%	100%

15. EMPLOYEE FUTURE BENEFITS (continued)

	Year Ended December 31, 2008	Year Ended December 31, 2007
Pension plan cost		
Current service cost	$ 55	$ 91
Interest cost on accrued benefit obligation	174	161
Return on plan assets	287	(108)
Actuarial gains during the year on accrued benefit obligation	(617)	(140)
	$ (101)	$ 4
Other adjustments:		
Difference between actual and expected return on plan assets	(492)	(79)
Amortization of actuarial losses	791	270
Transitional amounts	90	90
Net pension plan expense	$ 288	$ 285

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Employer contributions	$ 288	$ 285
Benefits paid	$ 236	$ 58

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.

Weighted average assumptions:

Weighted average of the amounts assumed in accounting for the plan:	Year Ended December 31, 2008	Year Ended December 31, 2007
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	7.25%	5.50%
Discount rate at the end of preceding period used to determine the benefit cost	5.50%	5.00%
Rate of compensation increase used to determine the accrued benefit obligation	3.50%	2.50%
Rate of compensation increase used to determine the benefit cost	2.50%	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, 2008 was $2,055 and for the year ended December 31, 2007 was $1,848. 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, 2008 was $327.

16. 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, 2008	Year Ended December 31, 2007
Basic:		
Net income	$ 8,796	$ 12,120
Weighted average number of Units outstanding	29,822,127	22,098,207
Diluted:		
Net income	$ 8,796	$ 12,120
Non-controlling interest	1,745	3,119
Net income available to Unitholders and Class B LP Unitholders	$ 10,541	$ 15,239
Weighted average number of Units outstanding – Basic	29,822,127	22,098,207
Weighted average exchangeable Class B LP Units outstanding	5,539,991	5,686,153
Dilutive effect of Class B LP Units in connection with the Heath acquisition	342,583	-
Weighted average number of Units outstanding - Diluted	35,704,701	27,784,360
Net income per Unit – Basic and Diluted	$ 0.295	$ 0.549

17. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Accounts receivable	$ (9,258)	$ (4,540)
Unbilled fees	(3,706)	2,050
Income taxes recoverable/payable	(564)	386
Prepaid expense and other	(1,184)	(272)
Accounts payable and accrued liabilities	4,292	(341)
Deferred revenue	(860)	688
	$ (11,280)	$ (2,029)

	Year Ended December 31, 2008	Year Ended December 31, 2007
Interest paid	$ 5,391	$ 1,707
Income taxes paid (refunded)	$ 637	$ (40)
Promissory notes issued to vendors on acquisition of Shepell•fgi	$ 71,358	$ -

18. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at December 31, 2008 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:

2009	$ 10,387
2010	9,970
2011	8,728
2012	7,542
2013	6,835
Thereafter	40,647
Total	$ 84,109

In addition, the Fund has two subleases for which the Fund is liable for the rent in case of a default by the subtenants. The average annual rent for the leases are $192 and $244 and expire on October 30, 2011 and June 29, 2017, respectively. The fair value of the total future lease payments related to these subleases as at December 31, 2008 was $2,435. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

19. 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.

20. ECONOMIC DEPENDENCE

Revenue from the Fund's largest client was approximately 7% for the year ended December 31, 2008 (for the year ended December 31, 2007– 11%). The Fund's top 10 clients, in the aggregate, accounted for approximately 24% of the total revenue for the year ended December 31, 2008 (for the year ended December 31, 2007– 31%).

Accounts receivable from the Fund's largest client was approximately 2% of the total accounts receivable as at December 31, 2008 (December 31, 2007 – 2%). The Fund's top 10 clients accounted for approximately 23% of the total accounts receivable as at December 31, 2008 (December 31, 2007 – 24%).

21. 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, 2008	Year Ended December 31, 2007
Revenue:		
Canada	$ 231,928	$ 138,745
United States	17,785	8,341
	$ 249,713	$ 147,086

21. SEGMENTED INFORMATION (continued)

	2008	2007
Assets:		
Canada	$ 680,903	$ 332,397
United States	8,962	2,031
Liabilities:		
Canada	$ 369,118	$ 136,367
United States	2,617	393

22. 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.

23. FINANCIAL INSTRUMENTS

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Held for trading [(i)]	$ (821)	$ 3,683
Loans and receivables [(ii)]	54,414	28,243
Other financial liabilities [(iii)]	275,004	51,691

(i) Includes cash and derivative financial instruments not designated as hedges.
(ii) Includes accounts receivable and income taxes recoverable.
(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.

23. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair value of the Fund's financial assets and liabilities approximate carrying values due to their short-term nature or with respect to the long-term debt instruments, because they bear interest at market rates. The fair value of interest-rate swaps was determined using estimated future discounted cash flows using a comparable market rate of interest. The Fund does not enter into financial instruments for trading or speculative purposes.

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 $30.

Credit risk

The Fund's exposure to credit risk is limited to carrying amount of cash, accounts receivable and interest-rate swap agreements recognized at the balance sheet date.

The aging of fees receivable was:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Current	$ 21,353	$ 9,524
Past due 1 - 30 days	13,443	9,416
Past due 31 - 90 days	9,592	5,643
Past due over 90 days	8,195	2,946
	$ 52,583	$ 27,529

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 (note 20). The Fund has over 6,000 clients, with no client accounting for greater than 1% of total revenue with the exception of the 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, 2008 was $683 (December 31, 2007 - $76).

The Credit risk on cash and interest-rate swap agreements is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

23. FINANCIAL INSTRUMENTS (continued)

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, 2008 was approximately US$9,188.

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, 2008 the aggregate amount of contracts outstanding was US$16,731. 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 loss as at December 31, 2008 was $821.

As at December 31, 2008, the Fund's net exposure to currency risk through its current assets and liabilities dominated in U.S. dollars was US$5,036. 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 $252 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 22.

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 accounts payable and accrued liabilities and Unitholder distributions payable are due for payment within twelve months of the balance sheet date. In addition, the Funds also has the following contractual obligations maturing in the coming year;

- Promissory note issued in relation to the Shepell•fgi acquisition of $75,000 maturing on July 2, 2009.
- Final instalment related to the Cowan payable on August 1, 2009. The second instalment paid during 2008 was in the amount of $960.

The Fund has the option to repay up to 50% of the $75,000 promissory note and 100% of the $4.5 million promissory note through the issuance of Units, the number determined by dividing the dollar amount by the then market trading price discounted by 5%. In addition, the Fund has available $40 million in a secured non-revolving delayed draw term facility.

The final instalment related to Cowan is expected to be funded from our cash from operations or drawn from our revolving line of credit.

24. ENVIRONMENTAL REPORTING

As a consulting company, the Fund does not have environmental concerns.

25. COMPARATIVE FIGURES

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