Consolidated Financial Statements
(In Canadian dollars)

MORNEAU SHEPELL INC.
(FORMERLY MORNEAU SOBECO INCOME FUND)

Years ended December 31, 2011 and 2010

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Morneau Shepell Inc.

We have audited the accompanying consolidated financial statements of Morneau Shepell Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morneau Shepell Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 7, 2012
Toronto, Canada

MORNEAU SHEPELL INC.
(FORMERLY MORNEAU SOBECO INCOME FUND)

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2011, December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash	$ –	$ 360	$ 1,596
Trade and other receivables (note 5)	62,909	61,093	55,018
Unbilled fees (note 6)	22,732	16,266	17,526
Income taxes recoverable (note 18)	–	386	226
Prepaid expenses and other (note 7)	3,105	1,788	3,203
Cash and investments held in trust	12,248	13,946	9,313
Deferred implementation costs (note 8)	2,121	659	167
Total current assets	103,115	94,498	87,049
Non-current assets:			
Unbilled fees (note 6)	1,505	–	–
Foreign exchange contracts	–	–	479
Deferred implementation costs (note 8)	7,000	2,881	929
Capital assets (note 9)	23,961	17,034	15,333
Intangible assets (note 10)	230,716	234,650	253,659
Goodwill (note 11)	301,792	300,792	300,792
Total non-current assets	564,974	555,357	571,192
Total assets	$ 668,089	$ 649,855	$ 658,241

MORNEAU SHEPELL INC.
(FORMERLY MORNEAU SOBECO INCOME FUND)

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2011, December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities and Equity			
Current liabilities:			
Bank indebtedness (note 15)	$ 807	$ –	$ –
Trade and other payables (note 12)	47,092	39,523	38,770
Income taxes payable (note 18)	213	453	–
Deferred revenue	2,250	1,584	1,795
Insurance premium liabilities	12,248	13,946	9,313
Long-term debt (note 15)	–	11,500	11,500
Promissory note (note 16)	–	–	4,306
Future consideration related to acquisition (note 4)	500	4,672	2,457
Dividends payable	3,116	–	3,759
Total current liabilities	66,226	71,678	71,900
Non-current liabilities:			
Long-term debt (note 15)	207,121	183,355	158,887
Payable to LP unitholders on investment (note 22)	–	53,729	53,649
Interest rate swaps (note 15)	5,389	4,424	6,656
Future consideration related to acquisition (note 4)	1,653	–	3,772
Other liabilities (note 13)	7,670	6,685	6,870
Payable to LTIP unitholders (note 20)	–	5,449	3,956
Provisions (note 14)	1,887	2,390	3,636
Deferred tax liability (note 18)	20,560	11,820	19,332
Total non-current liabilities	244,280	267,852	256,758
Equity:			
Share capital (note 21)	473,838	420,109	415,626
Contributed surplus (note 21)	8,721	–	–
Deficit	(120,328)	(107,429)	(80,651)
Accumulated other comprehensive loss	(4,648)	(2,355)	(5,392)
Total equity	357,583	310,325	329,583
Total liabilities and equity	$ 668,089	$ 649,855	$ 658,241

Commitments and contingencies (notes 4, 28 and 29)
Subsequent events (note 30)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Robert Chisholm"
Audit Committee Chair

"Alan Torrie"
President & CEO

MORNEAU SHEPELL INC.

(FORMERLY MORNEAU SOBECO INCOME FUND)

Consolidated Statements of Income and Comprehensive Income
(In thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2011 and 2010

	2011	2010
Revenue:		
Fees	$ 344,370	$ 314,177
Commissions and other income	20,618	21,017
Total operating revenue	364,988	335,194
Expenses:		
Salary, benefit and contractor (note 27)	237,144	221,235
Depreciation, amortization and impairment losses (notes 9 and 10)	21,087	29,135
Rent and occupancy	16,978	16,722
Office and administration	41,333	40,984
Total operating expenses	316,542	308,076
Profit before finance costs, contingent consideration related to business acquisitions and income taxes	48,446	27,118
Finance costs (note 15)	14,214	10,530
Interest expense related to LP Units and LTIP awards	–	7,810
Contingent consideration related to business acquisition (notes 4(a) and 32)	192	900
Profit before income taxes	34,040	7,878
Income taxes (recovery) (note 18):		
Current	770	837
Deferred	8,367	(6,567)
	9,137	(5,730)
Profit for the year	24,903	13,608
Other comprehensive income (loss):		
Effective portion of change in interest rate cash flow hedge	(5,114)	2,163
Ineffective portion of changes in fair value of interest rate cash flow hedges transferred to Profit	69	69
Transfer to profit due to termination of interest rate cash flow hedges	3,110	–
Foreign currency translation differences for foreign operations	14	(207)
Income tax on Other comprehensive income	(372)	1,012
Other comprehensive income (loss), net of tax effect	(2,293)	3,037
Comprehensive income for the year	$ 22,610	$ 16,645

Earnings per share

Basic (note 23)	$ 0.52
Diluted (note 23)	$ 0.51

See accompanying notes to consolidated financial statements.

MORNEAU SHEPELL INC.

(FORMERLY MORNEAU SOBECO INCOME FUND)

Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

Years ended December 31, 2011 and 2010

2011	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
Balance, January 1, 2011	$ 420,109	$ –	$ (107,429)	$ (2,355)	$ 310,325
Exchange of LP Units on reorganization (note 1)	53,729	–	–	–	53,729
Long-term incentive plan - reclassification as equity-based awards (note 21)	–	5,449	–	–	5,449
Long-term incentive plan - non-cash expense	–	2,862	–	–	2,862
Long-term incentive plan - DRIP	–	410	(410)	–	–
Profit for the year	–	–	24,903	–	24,903
Dividends	–	–	(37,392)	–	(37,392)
Other comprehensive income (loss)	–	–	–	(2,293)	(2,293)
Balance, December 31, 2011	$ 473,838	$ 8,721	$ (120,328)	$ (4,648)	$ 357,583

2010	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
Balance, January 1, 2010	$ 415,626	$ –	$ (80,651)	$ (5,392)	$ 329,583
Exchange of LP Units for Fund Units	2,714	–	–	–	2,714
Long-term incentive plan - DRIP	169	–	(49)	–	120
Long-term incentive plan - settlement of awards through issuance	1,600	–	(209)	–	1,391
Profit for the year	–	–	13,608	–	13,608
Dividends	–	–	(40,128)	–	(40,128)
Other comprehensive income (loss)	–	–	–	3,037	3,037
Balance, December 31, 2010	$ 420,109	$ –	$ (107,429)	$ (2,355)	$ 310,325

See accompanying notes to consolidated financial statements.

MORNEAU SHEPELL INC.

(FORMERLY MORNEAU SOBECO INCOME FUND)

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Operating activities:		
Profit for the year	$ 24,903	$ 13,608
Items not involving cash:		
Depreciation of capital assets (note 9)	6,870	4,645
Amortization of intangible assets (note 10)	14,217	22,073
Finance costs (note 15)	14,214	10,530
Interest related to LP Units and LTIP awards (note 32)	–	7,810
Long-term incentive plan (note 20)	2,862	2,918
Write down of proprietary software (note 10)	–	2,417
Current income taxes (note 18)	770	837
Deferred income taxes (recovery) (note 18)	8,367	(6,567)
Fair value of forward exchange contracts	–	478
Changes in sublease loss provisions	(447)	(1,447)
Other	497	654
	72,253	57,956
Change in non-cash operating working capital (note 25)	(6,192)	(5,083)
Cash generated from operating activities	66,061	52,873
Finance costs paid	(10,573)	(9,931)
Income taxes paid	(625)	(528)
Cash provided by operating activities	54,863	42,414
Financing activities:		
Payment of credit agreement renewal fees	(1,200)	–
Change in revolving loan	13,000	24,000
Repayment of promissory note	–	(4,500)
Interest paid to LP unitholders	–	(4,982)
Settlement of interest rate swaps (note 15)	(4,150)	–
Dividends paid	(34,276)	(43,887)
Cash used in financing activities	(26,626)	(29,369)
Investing activities:		
Business acquisition - Leong & Associates (note 4(a))	(4,864)	(2,457)
Business acquisition - Jacques Lamarre & Associates (note 4(b))	(4,250)	–
Additions to intangible assets	(7,333)	(5,482)
Additions to capital assets	(12,957)	(6,342)
Cash used in investing activities	(29,404)	(14,281)
Net decrease in cash for the year	(1,167)	(1,236)
Cash, beginning of year	360	1,596
Cash (bank indebtedness), end of year	$ (807)	$ 360

See accompanying notes to consolidated financial statements.

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1. Organization and nature of the business:

Morneau Shepell Inc. (the "Company") provides human resource consulting and outsourcing services, delivering solutions to assist employers in managing the financial security, health and productivity of their employees, whose principal and head office is located at One Morneau Shepell Centre, 895 Don Mills Road, Suite 700, Toronto, Ontario, M3C 1W3. The Company offers its services to organizations that are situated in Canada, in the United States and internationally.

The Company was incorporated pursuant to the laws of the Province of Ontario on October 21, 2010, for the purposes of participating in the plan of arrangement ("Reorganization"), whereby the Morneau Sobeco Income Fund (the "Fund") was converted from an income trust structure into the public corporation Morneau Shepell Inc., effective January 1, 2011.

Pursuant to this Reorganization, units of the Fund ("Units") and all Class B limited partnership units of Morneau Sobeco Group Limited Partnership ("LP Units"), a subsidiary of the Fund, were exchanged, on a one-for-one basis for common shares of the Company. Holders of Units and LP Units, therefore, became sole shareholders of the Company effective January 1, 2011.

This Reorganization was treated as a change in business form rather than a change in control and therefore, has been accounted for as a continuity of interest. The carrying amounts of assets, liabilities, and unitholders' equity in the consolidated financial statements of the Fund immediately prior to the Reorganization were the same as the carrying values of the Company immediately prior to the Reorganization. The Company refers to common shares, shareholders, and dividends which were formerly referred to as units, unitholders, and distributions under the Fund. Comparative amounts in these consolidated financial statements are those of the Fund.

These consolidated financial statements were approved by the Company's Board of Directors on March 7, 2012.

References herein to Morneau Shepell Inc. represent the financial position, results of operations, cash flows and disclosures of the Company and its subsidiaries on a consolidated basis.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements represent the Company's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), as at January 1, 2010 ("Transition Date"). In accordance with IFRS, the Company has:

(i) provided comparative financial information;

(ii) applied the same accounting policies throughout all periods presented;

(iii) elected certain optional exemptions from the general requirement for retrospective application of IFRS; and

(iv) applied certain mandatory exceptions from full retrospective application of IFRS.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). As IFRS and previous Canadian GAAP differ in some areas, management has amended certain accounting, measurement, and consolidation methods applied in the previous Canadian GAAP financial statements in order to comply with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial results and cash flows of the Company is provided in note 32.

(b) Basis of consolidation:

These consolidated financial statements include the assets, liabilities, revenue and expenses of all its subsidiaries. Subsidiaries are entities over which the Company has the power to govern financial and operating policies ("control"), generally represented by an ownership interest of more than 50% of voting rights. Subsidiaries are consolidated from the date control is transferred to the Company, and would be de-consolidated from the date control ceases.

2. Basis of preparation (continued):

These consolidated financial statements include the assets, liabilities, revenue and expenses of all the Company's subsidiaries including the following operating entities:

	% Ownership
Morneau Shepell Ltd.	100.0
Morneau Shepell Limited	100.0
Morneau Sobeco IT Solutions Inc.	100.0
FGI World New Caledonia	100.0
1137273 Ontario Limited	100.0
Innu-Med Inc.	41.3

All intercompany transactions and balances between subsidiaries have been eliminated upon consolidation.

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial positions:

(i) interest rate swaps are measured at fair value;

(ii) future consideration related to acquisition measured at fair value; and

(iii) payable to LP unitholders on investment and payable to LTIP unitholders in the comparative 2010 period are measured at fair value.

(d) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Unless otherwise noted, all financial information presented has been rounded to the nearest thousand.

(e) Use of estimates and judgments:

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 year.

2. Basis of preparation (continued):

Estimated values 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 not necessarily result in precise determinations. Should the underlying assumptions change, the estimated value could change by a material amount, and actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis, and revisions to accounting estimates are recognized in the period giving rise to the change.

Information about the most significant estimates and judgments the Company is required to make is included in the following notes:

(i) Revenue recognition (outsourcing contracts) (note 3(b)):

Where a singular outsourcing contract requires the delivery of multiple components, the Company is required to assess the criteria for the recognition of revenue related to each component. These assessments require judgment by management to determine whether separately identifiable components exist, and where applicable, the appropriate fair value allocations to each. Amongst other factors, management considers whether implementation services are sold separately in the normal course of business, have stand-alone value to the customer, and look to budgeted salary costs associated with each phase of the service contract to derive fair value estimates. Additional discussion on the Company's revenue recognition policies can be found in note 3(b). Changes in management's estimates could affect the timing of recognizing the revenues and expenses associated with these contracts.

2. Basis of preparation (continued):

(ii) Unbilled fees (note 6):

The Company is required to assess the recoverability of fees on services provided but not yet billed. This assessment requires judgment by management to determine whether fees will be less than fully recoverable through invoicing. Amongst other factors, management considers the solvency of the client, the age of the outstanding unbilled fees balance and historic client experience. If future billings differ from estimates, future profits could be adversely affected.

(iii) Capital assets (note 9):

The Company is required to exercise judgment in determining the estimated useful lives of capital assets, and the accounting methodology that would most closely reflect the expected pattern of consumption of those future economic benefits embodied in the asset. Management considers the anticipated rate of obsolescence and competitive pressures, historical consumption patterns, and internal business plans for the assets' use in deriving these estimates. The Company could incur impairment charges in future periods if management's assessment of the future benefits associated with these assets differs from actual performance.

(iv) Intangible assets (note 10):

(a) Internally-developed software:

The Company is required to estimate the expected period of benefit over which costs should be amortized. Management considers the anticipated rate and timing of technological obsolescence and competitive pressures, historical consumption patterns, and internal business plans for the projected use of the software in deriving its useful life. Due to the rapidly changing technological environment and the uncertainty of the development processes themselves, future results could be affected if management's current assessment of future benefits materially differs from actual performance.

2. Basis of preparation (continued):

(b) Other intangible assets:

Other intangible assets consist of those acquired through business acquisitions. Purchase price allocations involve significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur increased amortization or impairment charges in future periods.

(v) Goodwill (note 11):

Goodwill impairment review involves significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment charges in future periods. Additional discussion on impairment of long-lived assets can be found in note 10.

(vi) Trade receivable (allowance for doubtful accounts) (note 5):

The Company is required to assess whether accounts receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and delinquent accounts, current economic trends, and past experience. If future collections differ from estimates, future profits could be adversely affected.

(vii) Deferred income tax assets and liabilities (utilization of tax losses) (note 18):

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2. Basis of preparation (continued):

(viii) Provisions (note 14):

In identifying required provisions, the Company has to assess the probability of the future outflows of resources. Estimates must subsequently be made by management to approximate the timing and amount of these liabilities. If future events or results differ adversely from these estimates, future profits could be adversely affected.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010 for the purposes of transitioning to IFRS, unless otherwise noted.

(a) Revenue recognition and unbilled fees:

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

Generally, revenue from the rendering of services is recognized when the following criteria are met:

(i) the amount of revenue can be reliably measured;

(ii) the stage of completion can be reliably measured;

(iii) the receipt of economic benefits is probable; and

(iv) costs incurred and to be incurred can be reliably measured.

3. Significant accounting policies (continued):

Concurrently with the above general principles, the Company applies the following specific revenue recognition policies:

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.

Health management revenue is recognized on a fixed-fee or time-and-material basis. On fixed-fee basis arrangements, where the provision of service is characterized by an indeterminate number of acts, revenue is recognized on a straight-line basis over the term of the contract. On time-and material basis arrangements, revenue is recognized as services are rendered and expenditures are incurred.

Outsourcing engagements typically involve both an implementation and administration component. Where a single contract requires the delivery of multiple components, revenue recognition criteria are applied 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:

(i) the delivered item has value to the customer on a stand-alone basis; and

(ii) the fair value of the undelivered item can be reliably measured.

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.

3. Significant accounting policies (continued):

Unbilled fees represent fees earned for services rendered but not yet invoiced as at the reporting date; upon billing, this balance will be transferred to trade receivables. Unbilled fees on time and material basis arrangements are recorded at the lower of unbilled hours worked at normal billing rates and at the amount which is estimated to be recoverable upon invoicing. The Company maintains a provision for amounts expected to be unrecoverable.

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 income includes investment income earned in the course of normal business operations, and are recorded on the accrual basis.

(b) Deferred implementation costs and deferred outsourcing revenues:

Implementation costs incurred in connection with outsourcing service contracts, relate to those costs necessary to set up clients and their human resource or benefit programs onto the Company'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, net of any revenue received from 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.

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.

3. Significant accounting policies (continued):

(c) Foreign currency translation:

Transactions denominated in currencies other than the functional currency are recorded at the exchange rates prevailing at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing as at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Assets and liabilities of subsidiaries with functional currencies other than the Canadian dollar are translated at period-end rates of exchange, and operating results are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

(d) Cash and bank indebtedness:

Cash of the Company is comprised of bank balances and banker's deposit notes with an original maturity of three months or less, and are primarily held in Canadian and U.S. dollars. Where the Company's cash is in a net overdraft position, they have been presented as Bank Indebtedness.

(e) Trade and other receivables:

Trade receivables are fees due from customers from the rendering of services in the ordinary course of business. Trade receivables are classified as current if payment is due within one year of the reporting period date, and are initially recognized at fair value and subsequently measured at amortized cost.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. An impairment loss is recognized when there is evidence that the Company will not be able to collect the amount due under the original terms of the invoice. Expenses related to doubtful accounts are reported as office and administration expenses.

3. Significant accounting policies (continued):

Other receivables are those amounts incidental to the Company's normal business operations, and are classified as current when it is expected to be settled within one year of the reporting period date. Other receivables are initially recognized at fair value, and subsequently measured at amortized cost, less impairment.

(f) Capital assets:

Capital assets are recognized at initial cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including those attributable to bringing the asset to its intended working condition. Where significant parts of a capital asset have different useful lives, they are accounted for and depreciated as separate components. Software, to the extent that it is integral to the operation of the related computer equipment, has been included as part of the cost of computer equipment.

Gains and losses on disposals of a capital asset item are determined by comparing the proceeds from disposal with its carrying amount, and recognized as gain (loss) on disposal in the consolidated statement of income and comprehensive income.

Depreciation is calculated over the depreciable amount, which is the cost of the asset, less its residual value. Depreciation is recognized on a straight-line basis, over the assets' estimated useful lives, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of the Company's capital assets are as follows:

Computer equipment	3 - 5 years
Furniture and fixtures	5 years
Leasehold improvements	Over the term of the lease

3. Significant accounting policies (continued):

During the year, the Company effected a change in estimate, moving to a straight-line depreciation method from declining balance. It is management's view that straight-line depreciation would more closely align with both anticipated and historical consumption patterns related to these assets.

Residual values, useful lives, and depreciation methods are reviewed at the end of each reporting period and adjusted as required.

(g) Intangible assets:

Intangible assets consist of customer relationships, customer contracts, proprietary software, and trade names acquired through acquisitions or business combinations, internally-developed software and purchased software

Intangible assets acquired through acquisitions or business combinations are initially recognized at fair value.

Internally-developed software is recognized at the aggregate cost of all eligible development costs, when all the following criteria are met:

(i) it is technically feasible to complete the software so that it will be available for use;

(ii) management intends to complete the software and use or sell it;

(iii) the Company is able to use or sell the software;

(iv) future benefits associated with the software can be demonstrated;

(v) adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and

(vi) the expenditures attributable to the software during its development can be reliably measured.

3. Significant accounting policies (continued):

Eligible expenditures capitalized as part of internally-developed software 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 development of the software. All costs incurred in the preliminary research stage of the projects are expensed as incurred.

Purchased software are recognized at initial cost.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives.

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

Customer relationships	15 to 20 years
Customer contracts	1 - 2 years
Proprietary software	5 years
Trade names	Indefinite
Internally-developed software	3 -10 years
Purchased software	3 years

Intangible assets with an indefinite life are not amortized, but are subject to impairment tests annually or whenever impairment indicators are identified. Trade names have been determined to have an indefinite life based on its strength, history, and expected future use.

(h) Goodwill:

Goodwill represents the excess of the cost of the Company's business acquisitions over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment charges, and is not amortized but subject to an impairment test annually or whenever impairment indicators are identified.

3. Significant accounting policies (continued):

(i) Impairment of non-financial assets:

The Company's identifiable tangible and intangible assets with finite useful lives are reviewed for indications of impairment at each statement of financial position date and when events or changes in circumstances indicate that they may not be recoverable. Impairments are recorded when the recoverable amount of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses, other than those relating to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Similarly, intangible assets with indefinite useful lives and goodwill are tested annually or whenever impairment indicators are identified, by estimating their recoverable amounts and comparing it to their carrying amounts. Where individual assets cannot be tested individually, they are grouped together into cash-generating units ("CGU"), the smallest group of assets that are capable of generating cash inflow from continuing use largely independent of other groups of assets, and tested on this basis. Goodwill acquired through business combination is allocated to each CGU, or groups of CGU’s but not larger than an operating segment, that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss, and those impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

3. Significant accounting policies (continued):

Impairment losses in respect of goodwill are not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization had no impairment charge been recorded.

(j) Provisions:

Provisions are recognized when the Company has a present obligation to a third-party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Company's actions where, by an established pattern of past practice, published policies, the Company creates a valid expectation on the part of other parties that the Company will discharge certain responsibilities.

(k) Deferred revenue:

Deferred revenue represents the excess of retainer amounts billed over costs incurred and revenue earned on service contracts. The amount is amortized into profit as services are rendered, in accordance with the revenue recognition policies described above.

(l) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity, net of related tax effect.

3. Significant accounting policies (continued):

(m) Insurance premium liabilities and related cash and investments:

In its capacity as consultants, the Company collects premiums from insurers and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. The cash and investment balances and the related liabilities have been presentled separately in the Company's consolidated statements of financial position.

(n) Employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Company matches member contributions and is required to make additional contributions at the option of the member, up to the limits defined in the plan text. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company accrues its obligations under the defined benefit option of the plan as the employees render the services necessary to earn the pension.

(i) Defined benefit plan:

The liability recognized in the consolidated statements of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

3. Significant accounting policies (continued):

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are condition on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The defined benefit option was closed effective January 1, 1998 and included 61 employees as at December 31, 2011, comprising of active employees, retirees, and deferred vested members. All other employees are covered by the defined contribution option of the plan.

The Company has elected under IFRS 1 to adopt the option to recognize in opening deficit the cumulative actuarial loss from the inception of the defined benefit plan until the Transition Date. See note 32 for further discussion.

(ii) Defined contribution plan:

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 Company matches required contributions. For employees with less than 10 years of service, the Company contributes 50% of optional contributions and for members with 10 or more years, 75% of optional contributions. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

3. Significant accounting policies (continued):

(o) Share-based compensation plan:

The Company offers an equity-settled compensation plan under which it receives services from employees as consideration for equity instruments of the Company. Under the long-term incentive plan ("LTIP"), the Company may grant participants restricted share units ("RSUs"), retirement deferred share units ("Retirement DSUs"), or post-retirement deferred share units ("Post-Retirement DSUs"), collectively referred to as "LTIP Units".

Expense related to LTIP Units are measured based on the fair value of the awards at grant date. The expense is recognized as salary, benefit and contractor expenses over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. As LTIP Units vest, they are transferred or issued to the participant and are recorded as share capital. Holders of LTIP Units are entitled to cash bonuses equivalent to the dividends payable had those Units been common shares, or additional LTIP Units as determined based on the fair market value of those LTIP Units on the date credited. LTIP Units credited under the dividend reinvestment policy ("DRIP") vest at the same rate as the LTIP Units to which they are determined. Cash bonuses are recorded as salary, benefit, and contractor expense as dividends are declared. Units issued under DRIP are accounted for as a credit to contributed surplus, with a corresponding charge to deficit.

At the end of each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and forfeited, and recognizes the impact of any revisions into profit or loss.

3. Significant accounting policies (continued):

(p) Income taxes:

Income tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill and trademark.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax provisions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3. Significant accounting policies (continued):

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Financial instruments:

Financial assets and liabilities are recognized initially 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 Company's financial assets and liabilities is dependent on their classification as held for trading, loans and receivables, other financial liabilities or derivative instruments.

The Company initially recognizes loans and receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

3. Significant accounting policies (continued):

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position, when and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company assesses as at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. When an impairment has occurred, the cumulative loss is recognized into profit or loss. The cumulative loss is measured as the difference between the trade date cost and the current fair value, less any impairment loss previously recognized in profit or loss.

(i) Non-derivative financial assets:

(a) Financial assets at fair value through profit and loss:

Financial assets at fair value through profit and loss comprise of foreign exchange contracts. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking, or it is a derivative that is not designated and effective as a hedging instrument. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value at each reporting date, and any unrealized gains or losses from market fluctuations are recognized in profit or loss.

(b) Loans and receivables:

Loans and receivables comprise trade and other receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment losses.

3. Significant accounting policies (continued):

(ii) Non-derivative financial liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

Non-derivative financial liabilities of the Company include loans and borrowings, bank indebtedness, and trade and other payables.

(iii) Derivative financial instruments:

Derivative financial instruments are used by the Company 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 hedges are accounted for using hedge accounting principles (see note 3(r) below).

(iv) Fair value of financial instruments:

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

3. Significant accounting policies (continued):

- Level 3 - inputs for the asset or liability that are not based on observable market data.

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

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

(r) Cash flow hedge - derivative instruments:

Derivative instruments are initially recognized at fair value on the date the contract is entered into and are subsequently re-measured to fair value at each reporting date. The Company holds derivative instruments for hedging purposes only, and does not enter into derivative contracts for speculative purposes.

The Company prepares formal documentation at the inception of the transaction to detail the relationship between derivative hedging instruments and hedged items, as well as its risk management objectives and strategy in partaking in the hedging transaction. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative used in hedging transactions is highly effective in offsetting the changes in cash flows of the hedged items.

Non-performance risk, inclusive of the Company's credit risk, is considered in determining the fair value of the financial instruments.

3. Significant accounting policies (continued):

The Company has designated its derivative instruments as cash flow hedges. Cash flow hedges are hedges against highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized as a component of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately into the profit or loss. Amounts accumulated in other comprehensive income are recycled into profit or loss in the period in which the hedged item will affect profit or loss. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the original forecasted transaction is ultimately recognized into profit or loss. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is immediately recognized into profit or loss.

(s) Business combinations:

Acquisitions of businesses are accounted for using the purchase method. The acquisition cost is measured at the acquisition date at the fair value of the consideration transferred, including all contingent consideration. Subsequent changes in contingent consideration are accounted for through profit in accordance with the applicable standards.

Goodwill arising on acquisition is initially measured at cost, being the difference between the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree and the net recognized amount (generally fair value) of the identifiable assets and liabilities assumed at the acquisition date.

For each business combination with ownership interest below 100%, non-controlling interests are measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This determination is made on an acquisition by acquisition basis.

Acquisition-related costs, other than those that are associated with the issue of debt or equity securities that the Company incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies (continued):

(t) Future accounting changes:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 introduces new requirements for classifying and measuring financial assets and may affect the Company's accounting for its financial assets. Specifically, IFRS 9 requires financial assets to be classified into two measurement categories, those measured at fair value and those measured at amortized cost. The standard is not applicable until January 1, 2015 but is available for early adoption. The Company has not early adopted IFRS 9 for the year ended December 31, 2011, and the extent of the impact has not been determined.

(ii) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

IFRS 10 replaces International Accounting Standard ("IAS") 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. This new standard contains a single consolidation model that identifies control as the basis for consolidation for all types of entities, sets forth factors to consider in assessing control, and requires control to be assessed on a continuous basis. The standard is not applicable until January 1, 2013, but is available for early adoption. The Company has not early adopted IFRS 10, and the extent of the impact has not been determined.

(iii) IFRS 13, Fair Value Measurement ("IFRS 13"):

IFRS 13 defines and provides a framework for measuring fair value and sets forth related disclosure requirements. Specifically, IFRS 13 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard is applicable prospectively for annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not early adopted IFRS 13 for the year ended December 31, 2011, and the extent of the impact has not been determined.

3. Significant accounting policies (continued):

(iv) IAS 1, Presentation of Financial Statements ("IAS 1"):

IAS 1 was amended to require an entity to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The standard is applicable retrospectively for annual periods beginning on or after July 1, 2012, but is available for early adoption. The Company has not early adopted the amendments to IAS 1, and the extent of the impact has not been determined.

(v) IAS 19, Employee Benefits ("IAS 19"):

IAS 19 was amended to improve and provide clarity on the recognition, presentation, and disclosure requirements of defined benefit plans. Specifically, the amendments will require the recognition of changes in the net defined benefit liability (asset), modify the accounting for termination benefits, and enhance disclosures. The standard is applicable retrospectively for annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not early adopted the amendments to IAS 19, and the extent of the impact has not been determined.

4. Business acquisitions:

(a) Leong & Associates Actuaries and Consultants Inc. ("Leong & Associates"):

Prior to January 1, 2010, the Transition Date, on October 1, 2008, a subsidiary of the Company acquired 100% of the issued and outstanding shares of Leong & Associates, a British Columbia-based business specializing in actuarial and broader pension consulting solutions. The purchase price is contingent on business results and was payable in three instalments. The first instalment of $3,010 was satisfied on closing through cash and equity consideration. The second instalment of $2,457, which was subject to revenue adjustments plus interest calculated at an annual rate of 3.27%, was paid during the 2010 fiscal year. The third and final instalment, which was subject to revenue adjustments plus interest calculated at an annual rate of 3.87%, was finalized and settled during the year in the amount of $4,864 ($4,672 as at December 31, 2010, $3,772 as at January 1, 2010 in accordance with IFRS 1 (see note 32)). The additional $192 contingent consideration accrued has been recognized through profit and loss for the year and presented as such on the face of the consolidated statements of income and comprehensive income. There have been no changes to the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

At December 31, 2011, and the comparative December 31, 2010 and January 1, 2010 periods, goodwill recognized on this acquisition was $870.

(b) Jacques Lamarre & Associates and Parcours d'enfant ("Jacques Lamarre & Associates"):

On September 30, 2011, the Company completed the acquisition of the Jacques Lamarre & Associates business, a company specializing in providing EAP services, crisis management, and organizational health and productivity solutions. This acquisition allows the Company to broaden its portfolio of EAP solutions, and to expand its presence in the province of Québec. The purchase price is contingent on future business results and is expected to approximate $6,750 payable in two instalments. The first instalment of approximately $4,750 of which $500 will be released pending finalization of the purchase price in the first half of 2012, was satisfied on closing through cash consideration. The second and final instalment of $2,000, is subject to certain revenue adjustments, and will be settled in October 2013. The Company expects that the revenue targets will be achieved, therefore the full amount of the future consideration has been recognized. At December 31, 2011, $1,653 has been recognised as an acquisition liability on the statement of financial position, representing the $2,000 final instalment discounted.

(In thousands of Canadian dollars, except per share amounts)

4. Business acquisitions (continued):

This acquisition has been accounted for using the purchase method of accounting. The purchase price allocation presented below is preliminary pending finalization of the purchase price in the first half of 2012, and the valuation of the net identifiable assets acquired and liabilities assumed.

Had this acquisition occurred on January 1, 2011, management estimates that revenue would have increased by approximately $8,600 to $373,600 for the year ended December 31, 2011. Profit for the year, excluding amortization charges of acquired intangible assets, would have increased by approximately $400. In determining these amounts, management has assumed that the fair values determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2011.

The preliminary estimated fair values as of the acquisition date of the assets acquired and liabilities assumed are as follows:

Accounts receivable	$ 1,250
Unbilled fees	2,210
Prepaid expenses and deposits	20
Capital assets	160
Intangible assets - customer relationships	2,950
Goodwill	1,000
Accounts payable	(1,190)
	$ 6,400

As at December 31, 2011, the valuation of the net assets acquired had not been completed. Upon finalization of the valuation of the net assets acquired during the measurement period, any excess of the purchase price over net assets acquired will result in further changes to goodwill. The preliminary goodwill is attributable mainly to the Jacques Lamarre & Associates workforce, and the synergies expected to be achieved from integrating the company into the Company's existing EAP business. 75% of the estimated goodwill amount is eligible for tax deduction. For the purpose of impairment testing the additional goodwill amount has been included under the EAP line of business.

These consolidated financial statements include the results of Jacques Lamarre & Associates from the date of acquisition September 30, 2011. For the year ended

(In thousands of Canadian dollars, except per share amounts)

December 31, 2011, Jacques Lamarre & Associates contributed revenue of $1,932, and profit (excluding amortization charges related to acquired intangible assets) of $209.

5. Trade and other receivables:

The Company's trade and other receivables are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 59,300	$ 59,384	$ 52,789
Less allowance for doubtful accounts	246	426	632
Net trade receivables	59,054	58,958	52,157
Other receivables	3,855	2,135	2,861
	$ 62,909	$ 61,093	$ 55,018

The aging of trade receivables at each reporting date was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current	$ 23,551	$ 24,908	$ 22,309
Past due 1 - 30 days	15,665	16,152	12,835
Past due 31 - 90 days	11,276	10,845	11,298
Past due > 90 days	8,808	7,479	6,347
	$ 59,300	$ 59,384	$ 52,789

The change in allowance for doubtful accounts was as follows:

Balance, January 1, 2010	$ 632
Additions	205
Amounts written off as uncollectible	(411)
Balance, December 31, 2010	426
Additions	708
Amounts written off as uncollectible	(888)
Balance, December 31, 2011	$ 246

(In thousands of Canadian dollars, except per share amounts)

6. Unbilled fees:

The Company's unbilled fees are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Total unbilled fees	$ 24,237	$ 16,266	$ 17,526
Less non-current portion	1,505	–	–
Current portion	$ 22,732	$ 16,266	$ 17,526

7. Prepaid expenses and other:

The Company's prepaid expenses and other comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Vendor prepayments	$ 1,557	$ 1,271	$ 1,175
Prepaid insurance	802	–	743
Prepaid deposits	565	467	587
Prepaid supplies	181	50	698
	$ 3,105	$ 1,788	$ 3,203

(In thousands of Canadian dollars, except per share amounts)

8. Deferred implementation costs:

The Company's deferred implementation costs comprise the following:

	Cost	Accumulated amortization	Net book value
Balance, January 1, 2010	$ 1,096	$ –	$ 1,096
Deferred implementation costs for the year, net of revenue	2,860	–	2,860
Amortization for the year	–	(416)	(416)
Balance, December 31, 2010	3,956	(416)	3,540
Deferred implementation costs for the year, net of revenue	6,649	–	6,649
Amortization for the year	–	(1,068)	(1,068)
Balance, December 31, 2011	$ 10,605	$ (1,484)	9,121
Less current portion			2,121
Non-current portion			$ 7,000

(In thousands of Canadian dollars, except per share amounts)

9. Capital assets:

The Company's capital assets comprise the following:

	Computer hardware	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance, January 1, 2010	$ 7,319	$ 6,985	$ 11,622	$ 25,926
Additions	4,194	505	1,885	6,584
Disposals	–	(238)	–	(238)
Balance, December 31, 2010	11,513	7,252	13,507	32,272
Additions	5,018	1,509	7,110	13,637
Acquired through business acquisitions	–	160	-	160
Balance, December 31, 2011	$ 16,531	$ 8,921	$ 20,617	$ 46,069
Accumulated depreciation				
Balance, January 1, 2010	$ 2,566	$ 2,936	$ 5,091	$ 10,593
Depreciation	2,012	852	1,781	4,645
Balance, December 31, 2010	4,578	3,788	6,872	15,238
Depreciation	3,404	1,286	2,180	6,870
Balance, December 31, 2011	$ 7,982	$ 5,074	$ 9,052	$ 22,108
Carrying amount				
January 1, 2010	$ 4,753	$ 4,049	$ 6,531	$ 15,333
December 31, 2010	6,935	3,464	6,635	17,034
December 31, 2011	8,549	3,847	11,565	23,961

(In thousands of Canadian dollars, except per share amounts)

10. Intangible assets:

The Company's intangible assets comprise the following:

	Indefinite useful life	Finite useful life					
	Trade names	Customer relationships	Customer contracts	Proprietary software	Internally-developed software	Purchased software	Total
Cost							
Balance, January 1, 2010	$ 70,000	$ 199,557	$ 27,500	$ 46,000	$ 3,169	$ 2,943	$ 349,169
Internally developed	–	–	–	–	2,912	–	2,912
Purchased	–	–	400	–	–	2,170	2,570
Impairment charges	–	–	–	(5,000)	–	–	(5,000)
Balance, December 31, 2010	70,000	199,557	27,900	41,000	6,081	5,113	349,651
Internally developed	–	–	–	–	5,678	–	5,678
Purchased	–	-	–	–	–	1,655	1,655
Acquired through business acquisitions	–	2,950	–	–	–	-	2,950
Balance, December 31, 2011	$ 70,000	$ 202,507	$ 27,900	$ 41,000	$ 11,759	$ 6,768	$ 359,934
Accumulated amortization							
Balance, January 1, 2010	$ –	$ 32,057	$ 26,125	$ 35,900	$ –	$ 1,428	$ 95,510
Amortization	–	11,806	1,597	7,200	200	1,270	22,073
Impairment charges	–	–	–	(2,582)	–	–	(2,582)
Balance, December 31, 2010	–	43,863	27,722	40,518	200	2,698	115,001
Amortization	–	11,813	178	200	730	1,296	14,217
Balance, December 31, 2011	$ –	$ 55,676	$ 27,900	$ 40,718	$ 930	$ 3,994	$ 129,218
Carrying amount							
January 1, 2010	$ 70,000	$ 167,500	$ 1,375	$ 10,100	$ 3,169	$ 1,515	$ 253,659
December 31, 2010	70,000	155,694	178	482	5,881	2,415	234,650
December 31, 2011	70,000	146,831	–	282	10,829	2,774	230,716

10. Intangible assets (continued):

Amortization expense has been presented in profit or loss as depreciation, amortization, and impairment losses. Assets are removed from asset and accumulated amortization balances once they become fully depreciated. Proceeds from disposals are netted against the related assets and accumulated amortization, and resulting gains and losses are included in profit.

Amortization on internally-developed software does not commence until the asset is ready for use as management intended. As at December 31, 2011, $2,701 (2010 - $363) of internally-developed software remained under development and had not been put into use.

During the fourth quarter of 2010, as a result of the development of a new software platform, the Company recognized an impairment loss of $2,418 on certain proprietary software acquired in the Shepell•fgi acquisition that had a cost of $5,000 and accumulated amortization of $2,582 at the time of impairment. This amount has been included in Depreciation, amortization and impairment losses.

Impairment test of indefinite-lived intangible assets:

The Company has determined, in accordance with IAS 36, Impairment of Assets ("IAS 36"), it has the following seven CGUs: Pension and Benefits - East, Pension and Benefits - Ontario, Pension and Benefits - West, Pension and Benefits - Québec, Outsourcing, EAP, and Health Management.

(In thousands of Canadian dollars, except per share amounts)

10. Intangible assets (continued):

For the purposes of impairment testing, the cash flows associated with the Company's trade name could not reasonably be allocated between the EAP and health management, and as a result, has been allocated to both CGUs and recoverable amount determined on an aggregate basis. An impairment test for the trade name was performed for the year ended December 31, 2011 in accordance with our policy described per note 2. The estimated fair value less cost to sell exceeded its carrying value, and as a result, no impairment charge was recorded. The valuation techniques, significant assumptions and sensitivities applied in the trade mark impairment test are similar to Goodwill and are described in Note 11.

11. Goodwill:

Impairment test of goodwill:

For the purposes of impairment testing, goodwill has been allocated to the Company's lines of businesses, which represent the Company's operating segments and the lowest level within the Company at which goodwill is monitored for internal management purposes, as defined in IAS 36. The aggregate carrying amount of goodwill has been allocated to each as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Pension and benefits	$ 113,536	$ 113,536	$ 113,536
Outsourcing	61,628	61,628	61,628
EAP	115,878	114,878	114,878
Health management	10,750	10,750	10,750
	$ 301,792	$ 300,792	$ 300,792

11. Goodwill (continued):

Goodwill impairment is assessed on an annual basis or whenever there is an indication that the asset may be impaired. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test as at December 31, 2011, December 31, 2010 and January 1, 2010 are described below.

(a) Valuation technique:

The recoverable amount of each CGU or segment was calculated based on its fair value less costs to sell, using an income approach to estimate its fair value. The income approach is predicated upon the value of the future cash flows that the business will generate going forward. The discounted cash flow ("DCF") method was used which involved projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risks associated with the business and the time value of money. This approach requires assumptions about revenue growth rates, operating margins, prevailing tax rates, and discount rates.

The significant assumptions and sensitivities of this methodology considered are described below.

(b) Growth and EBITDA margins

The assumptions used were based on the Company's internal forecasts. The Company projected revenue, EBITDA margins, working capital, and capital expenditures for a period of five years, and applied a perpetual long-term growth rate thereafter. Customer retention rates, past experience, economic trends (i.e. GDP, CPI, interest rate, and unemployment rate projections), and human resource industry and market trends were also considered in deriving these forecasts. A perpetuity growth rate of 3.0 percent (2010: 3.0 percent) was applied in determining the recoverable amount of the units.

(In thousands of Canadian dollars, except per share amounts)

11. Goodwill (continued):

(c) Discount rate:

A discount rate was required in order to calculate the present value of projected cash flows. The discount rate represented a weighted average cost of capital ("WACC") applicable to each CGU or segment. The WACC is an estimate of the overall required after-tax rate of return on investment required by all investors of capital and serves as the basis for developing the appropriate discount rate. Determination of the discount rate requires separate analysis of the cost of equity and debt, and considers a market risk premium based on an assessment of specific risks related to the projected cash flows of each CGU or segment. Discount rates represent the volatility assessment of expected cash flows based on past performance, competition, market conditions, and other factors. The following discount rates were applied in determining the recoverable amount of the CGU or segment:

	December 31, 2011	December 31, 2010	January 1, 2010
Pension and Benefits	10.0%	9.4%	10.0%
Outsourcing	10.2%	9.4%	10.0%
EAP	10.2%	9.4%	11.3%
Health management	13.3%	12.1%	11.8%
EAP and health management (business segment - for purposes of trade name impairment testing)	10.5%	9.6%	11.3%

The recoverable amounts of each CGU or segment, assessed as at December 31, 2011, December 31, 2010, and January 1, 2010, were in excess of their respective carrying amounts and therefore, no impairment charges were incurred.

The Company has performed a sensitivity analysis on the perpetuity growth rate and discount rate in assessing the recoverable amounts of each CGU or business segment at December 31, 2011, December 31, 2010 and January 1, 2010. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss.

(In thousands of Canadian dollars, except per share amounts)

12. Trade and other payables:

The Company's trade and other payables comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables and accrued liabilities	$ 26,162	$ 21,856	$ 22,582
Accrued salaries and compensation	19,500	15,585	14,699
Other current liabilities	1,430	2,082	1,489
	$ 47,092	$ 39,523	$ 38,770

13. Other liabilities:

The Company's other liabilities comprise obligations related to rental premises, including acquired above-market rent lease obligations and deferred lease obligations.

The Company's other liabilities were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Acquired above-market rent leases	$ 4,020	$ 4,571	$ 5,221
Deferred lease obligations	3,650	2,114	1,649
	$ 7,670	$ 6,685	$ 6,870

(In thousands of Canadian dollars, except per share amounts)

14. Provisions:

The Company has recognized sublease loss provisions associated with the lease of excess office space, and for expenditures related to contingency reserves on legal matters that the Company may become privy to in the normal course of operations. The sublease loss provision has been initially measured at the discounted present value of the minimum rental payments liable on the subleased properties and related commissions, net of sublease income related to these premises, and subsequently measured at best estimate. The estimate of the contingency reserve corresponds to the expenditure likely to be incurred by the Company to settle its obligation.

	December 31, 2011	December 31, 2010	January 1, 2010
Contingency reserve	$ 444	$ 500	$ 300
Sublease loss provisions	1,443	1,890	3,336
	$ 1,887	$ 2,390	$ 3,636

The following tables present the movement in provisions for the years ended December 31, 2011, and 2010:

	Sublease loss provisions	Contingency reserve	Total provisions
Balance, January 1, 2010	$ 3,336	$ 300	$ 3,636
Accrual	51	200	251
Utilization and amortization	(911)	–	(911)
Commission and other payments	(586)	–	(586)
Balance, December 31, 2010	$ 1,890	$ 500	$ 2,390
Accrual	–	204	204
Utilization and amortization	(225)	(260)	(485)
Commission and other payments	(222)	–	(222)
Balance, December 31, 2011	$ 1,443	$ 444	$ 1,887

(In thousands of Canadian dollars, except per share amounts)

15. Long-term debt:

The Company's long-term debt obligations can be broken down as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-revolving loans	$ 130,000	$ 160,000	$ 160,000
Revolving loans	78,500	35,500	11,500
	208,500	195,500	171,500
Less:			
Current portion of long-term debt	–	11,500	11,500
Debt issue costs, net of accumulated amortization	1,379	645	1,113
	1,379	12,145	12,613
	$ 207,121	$ 183,355	$ 158,887

On January 1, 2011, the Company, in connection with the Reorganization (note 1), entered into an amended and restated credit agreement for a term of four years, maturing on January 5, 2015. The credit facility provides for a term loan of $130,000 and a revolving facility of $100,000 (which was increased by $25,000 on March 31, 2011 from the initial $75,000 facility per the amended and restated agreement), which includes a swing line of $7,000.

The interest rate for the credit 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 Company's consolidated Debt to Adjusted EBITDA as calculated in the credit agreement.

The Company is required to maintain Debt to Adjusted EBITDA financial covenant of 3.25:1.00 effective as at December 30, 2010 and up to December 30, 2011, and 3.00:1.00 on December 31, 2011, and thereafter. On October 7, 2011, the credit agreement was amended to increase the Debt to Adjusted EBITDA financial covenant to 3.25:1.00 up to March 30, 2013, and 3.00:1.00 on March 31, 2013, and thereafter.

The credit facilities are secured by a general assignment of all the assets of the Company, and require the Company to maintain, on a consolidated basis, the Debt to Adjusted EBITDA ratio as described above, and an EBITDA to interest expense ratio of not less than 3.00:1.00.

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15. Long-term debt (continued):

EBITDA in the amended and restated credit agreement is defined as profit before finance costs, income taxes (recovery), depreciation, amortization, non-controlling interest, and non-recurring expenditures. Adjusted EBITDA is defined as EBITDA plus the pro-forma EBITDA from Permitted Acquisitions' entities.

At December 31, 2011 the Company had available and utilized the following credit facilities:

- $130,000 of term loans. The term loan is repayable in full on January 5, 2015 and bears interest at the one-month BA rate plus an applicable margin of 2.875%.

- $78,500 of $93,000 revolving loans. The revolving loan consists of a $3,000 prime loan and a $75,500 bankers acceptance ("BA") loan. The prime loan bears interest at prime rate plus an applicable margin of 1.875% and the BA loan is renewed on a monthly basis, bearing interest at the one-month BA rate plus an applicable margin of 2.875%.

- Nil of the $7,000 swing line available. The swing line carries interest at prime plus an applicable margin of 2.875%.

The Company complied with all the required financial covenants. At December 31, 2011 the Debt to adjusted EBITDA ratio was 2.9 and the EBITDA to interest expense ratio was 5.0.

(a) Interest rate swaps:

The Company entered into interest-rate swap agreements to hedge against the variable interest rate component of the term loans outstanding.

On January 7, 2011, pursuant to the Reorganization (note 1) and the new and amended credit agreement, the Company terminated its interest-rate swap agreements in the notional amounts of $137,000 and $23,000, previously entered into to fix the variable component of its term loans outstanding at 3.647% and 2.22%, respectively (before the applicable margin). As a result of this transaction, the Company incurred a termination expenditure of $4,150.

(In thousands of Canadian dollars, except per share amounts)

15. Long-term debt (continued):

On January 1, 2011, borrowings under the term loan were reduced from $160,000 to $130,000, removing the expectation that the forecasted variable interest payments associated with $30,000 of term loans that was previously hedged would occur. As a result, $778 of the $4,150, representing the cumulative loss on the interest rate swap cash flow hedges recognized through other comprehensive income up to the date of termination on $30,000, and $69 representing the ineffective portion up to that date, were recognized immediately into profit or loss as finance costs. The remaining $3,303 will be amortized into profit or loss as finance costs concurrently with the variable interest payments on the term loan remaining, until June 1, 2012, the maturity date of the original credit facility.

In contemplation of the termination of the previous interest-rate swap agreements (as described above), the Company entered in a new interest-rate swap agreement on January 7, 2011, in the notional amount of $130,000, from February 1, 2011 up to and ending January 5, 2015. This swap was used to fix the variable component of the interest rate at 2.48%, 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 at December 31, 2011 was a liability of $5,389.

(b) Finance costs:

The Company's finance costs comprise the following:

	2011	2010
Interest on term loan	$ 6,916	$ 8,733
Interest on revolving loan, bank indebtedness and other charges	2,966	969
Amortization of debt issuance costs	466	469
Immediate recognition and amortization of terminated interest rate swap	3,109	–
Ineffective portion on interest rate swap cash flow hedge	69	69
Other	688	290
	$ 14,214	$ 10,530

16. Promissory notes:

In connection with the Company's 2008 acquisition of Shepell•fgi, the Company had issued two promissory notes in the amounts of $75,000 and $4,500. At January 1, 2010, only the $4,500 promissory note remained outstanding, which was repaid in full on July 1, 2010. The notes were non-interest bearing, and were initially recorded at their discounted value. Accretion interest incurred on the note for the year ended December 31, 2010 was $194, and is included as finance costs - other in note 15.

17. Financial instruments:

(a) Derivatives not designated as hedging instruments:

The Company used foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures.

(b) Financial risk management:

The Company's financial instruments are exposed to certain financial risks, including interest rate risk, credit risk, currency risk and liquidity risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

(i) Interest rate risk:

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. Specifically, the Company 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 Company's program to manage the fixed and floating interest rate mix of the Company's total debt outstanding and related overall cost of borrowing.

17. Financial instruments (continued):

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.

Interest rate sensitivity analysis:

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 Company's interest expense, excluding the interest subjected to interest rate swap agreements, by $381 (2010 - $135).

(ii) Credit risk:

The Company's exposure to credit risk is limited to carrying amount of cash and accounts receivable recognized at the reporting date.

No allowance for credit losses on financial assets was required as of December 31, 2011, other than the allowance for doubtful accounts (note 5). The Company determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectible are written off. The Company's bad debt expense for the year ended December 31, 2011 was $668 (2010 - $418).

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

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

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

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

17. Financial instruments (continued):

(iii) Currency risk:

The Company 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, 2011 was $19,243 (2010 - $1,136). In 2010, the Company had entered into currency hedge swap agreements to mitigate against this risk.

Foreign exchange sensitivity analysis:

As at December 31, 2011, the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars was U.S. $4,434. An appreciation (depreciation) of the Canadian dollar against the U.S. dollar would have resulted in an increase (decrease) of $222 in the Company's income and other comprehensive income. This analysis is based on a foreign currency exchange rate variance of 5% which the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company 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 30.

The Company's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, capital expenditures, dividends to shareholders and acquisition funding requirements. The Company has historically utilized cash from operations to satisfy the above needs, with the exception of acquisition funding requirements.

(In thousands of Canadian dollars, except per share amounts)

17. Financial instruments (continued):

The tables below set forth non-derivative and derivative financial liabilities by maturity based on the remaining period from December 31 to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

2011	Less than 1 year	1 - 2 years	3 -5 years
Non-derivative financial liabilities:			
Bank overdraft	$ 807	$ –	$ –
Trade and other payables	47,092	–	–
Dividends payable	3,116	–	–
Insurance premium liabilities	12,248		
Future consideration related to acquisitions (note 4)	500	2,000	–
Long-term debt	–	–	208,500
Derivative financial liabilities:			
Cash flow hedges - interest rate swaps	–	–	5,389
	$ 63,763	$ 2,000	$ 213,889

2010	Less than 1 year	1 - 2 years	3 -5 years
Non-derivative financial liabilities:			
Trade and other payables	$ 39,523	$ –	$ –
Insurance premium liabilities	13,946		
Future consideration related to acquisitions	4,672	–	–
Long-term debt	–	–	195,500
Derivative financial liabilities:			
Cash flow hedges - interest rate swaps	–	–	4,424
	$ 58,141	$ –	$ 199,924

(In thousands of Canadian dollars, except per share amounts)

17. Financial instruments (continued):

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Fair values:

Fair value represents management's estimates of the market value at a given point in time. The fair value of the Company'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 Company's financial assets and liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Assets carried at fair value:			
Derivatives not designated as hedges - foreign exchange forward contracts	$ –	$ –	$ 479
Assets carried at amortized cost:			
Trade and other receivables (note 5)	62,909	61,093	55,018
	$ 62,909	$ 61,093	$ 55,497
Liabilities carried at fair value:			
Cash flow hedges - interest rate swaps	$ 5,389	$ 4,424	$ 6,656
Promissory note (note 16)	–	–	4,306
Future consideration related to acquisitions	2,153	4,672	6,229
Liabilities at amortized cost:			
Trade and other payables (note 12)	47,092	39,523	38,770
Long-term debt (note 15)	207,121	194,855	170,387
	$ 261,755	$ 243,474	$ 226,348

17. Financial instruments (continued):

Fair value hierarchy:

The tables below analyze financial instruments carried at fair value, by valuation method. The levels used to determine fair value measurements for those instruments carried at fair value in the financial statements were as follows:

2011	Level 1	Level 2	Level 3
Liabilities measured at fair value:			
Fair value through other comprehensive income:			
Cash flow hedges - interest rate swaps	$ –	$ 5,389	$ –

2010	Level 1	Level 2	Level 3
Assets measured at fair value:			
Liabilities measured at fair value:			
Fair value through other comprehensive income:			
Cash flow hedges - interest rate swaps	$ –	$ 4,424	$ –

During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

(In thousands of Canadian dollars, except per share amounts)

18. Income taxes:

The income taxes recognized in profit or loss comprise the following:

		2011		2010
Current tax expense:				
Current year	$	770	$	837
Deferred tax expense (recovery):				
Origination and reversal of temporary differences		9,671		(7,340)
Effect of changes in tax rates		(1,681)		613
Interest rate swap		293		–
Other		84		160
		8,367		(6,567)
Total income tax expense (recovery)	$	9,137	$	(5,730)

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

	2011	2010
Income taxes at statutory rates:		
Federal	16.50%	18.00%
Provincial	11.63%	12.31%

The decrease in statutory rate is due to decrease in Canadian income tax rate.

(In thousands of Canadian dollars, except per share amounts)

18. Income taxes (continued):

	2011	2010
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	$ 9,599	$ 2,395
Income taxed in the hands of the unitholders	–	(12,531)
Non-deductible expenses	1,007	1,202
Adjustment to deferred income taxes and liabilities for change in income tax rate	(1,681)	613
Non-deductible expenses - interest on LP and LTIP Units	–	2,367
Other	212	224
	$ 9,137	$ (5,730)

The income taxes recognized on components of other comprehensive income are as follows:

	Before taxes	2011 Tax expense (benefits)	Net of taxes
Change in fair value of interest rates swaps	$ (5,045)	$ 1,312	$ (3,733)
Transfer to profit due to termination of interest Interest rates swaps	3,110	(782)	2,328
Change in effective tax rate	-	(902)	(902)
	$ (1,935)	$ (372)	$ (2,307)

	Before taxes	2010 Tax expense (benefits)	Net of taxes
Change in fair value of interest rates swaps	$ (2,232)	$ 1,012	$ (3,244)

(In thousands of Canadian dollars, except per share amounts)

18. Income taxes (continued):

The approximate tax effect of each item that gives rise to the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets:			
Fund Unit issuance costs	$ 945	$ 1,700	$ 3,191
Capital assets	842	1,059	825
Loss carryforward	4,606	13,476	7,532
Interest rate swaps	1,405	2,053	1,089
Other assets	155	239	32
	7,953	18,527	12,669
Deferred tax liabilities:			
Intangible assets	28,257	30,304	31,942
Other liabilities	256	43	59
	28,513	30,347	32,001
	$ (20,560)	$ (11,820)	$ (19,332)

Movement in temporary differences during the year 2011:

	Balance, January 1, 2011	Recognized in profit and loss	Recognized in other comprehensive income	Balance, December 31, 2011
Fund Unit issuance costs	$ 1,700	$ (755)	$ –	$ 945
Capital assets	1,059	(217)	–	842
Intangible assets	(30,304)	2,047	–	(28,257)
Tax value- losses carried forward	13,476	(8,870)	–	4,606
Interest rate swap	2,053	(275)	(373)	1,405
Other	196	(297)	–	(101)
	$ (11,820)	$ (8,367)	$ (373)	$ (20,560)

18. Income taxes (continued):

The Company has losses available to offset future taxable income of $17,464, which expire in 2030. The Company is subject to assessments by various taxation authorities which may interpret tax legislation and tax filing positions differently from the Company. The Company provides for such differences when it is probable that a taxation authority will not sustain the Company's filing position and the amount of the tax exposure can be reasonably estimated. As at December 31, 2011, no provisions have been made in the financial statements for any estimated tax liability.

19. Employee future benefits:

The Company 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 Company matches required contributions. For employees with less than 10 years of service, the Company contributes 50% of optional contributions and for members with 10 or more years, 75% of optional contributions.

The defined benefit option was closed effective January 1, 1998 and included four employees, 13 retirees and 44 deferred vested members as at December 31, 2011. All other employees are covered by the defined contribution option of the plan.

The Company has elected under IFRS 1 to adopt the option to recognize in deficit all cumulative actuarial gains or losses from the inception of the defined benefit plan until the Transition Date.

(In thousands of Canadian dollars, except per share amounts)

19. Employee future benefits (continued):

The amounts recognized in the consolidated statements of financial position are determined as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of funded obligations	$ 4,273	$ 3,631	$ 3,129
Fair value of plan assets	(3,531)	(3,332)	(2,855)
Deficit of funded plans	742	299	274
Unrecognized actuarial losses	(637)	(128)	–
Liability in the consolidated statements of financial position	$ 105	$ 171	$ 274

The allocation of fair value of plan assets as a percentage of total plan assets was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Pooled Equities Fund	50%	50%	55%
Pooled Bond Fund	50%	50%	45%
	100%	100%	100%

The movement in the defined benefit obligation over the year is as follows:

	2011	2010
Defined benefit obligations at January 1	$ 3,631	$ 3,129
Current service cost	57	60
Interest cost	186	181
Actuarial losses	377	354
Benefits paid by the plan	(115)	(93)
Plan amendments	137	–
	$ 4,273	$ 3,631

(In thousands of Canadian dollars, except per share amounts)

19. Employee future benefits (continued):

The movement in the fair value of plan assets of the year is as follows:

	2011	2010
Fair value of plan assets at January 1	$ 3,332	$ 2,855
Actual return on plan assets	105	428
Employer contributions	209	142
Benefits paid	(115)	(93)
	$ 3,531	$ 3,332

The amounts recognized in profit or loss:

	2011	2010
Current service cost	$ 57	$ 60
Interest cost	186	181
Actual return on plan assets	(105)	(428)
Actuarial losses	377	354
Past service cost arising from a plan amendment in the year	137	–
Other adjustments:		
Difference between actual and expected return on plan assets	(132)	226
Amortization of actuarial losses	(377)	(354)
	$ 143	$ 39

The expected return on plan assets is determined by applying the expected long-term rate of return on plan assets to the fair value of plan assets at the beginning of the reporting period and the net cash flow for the period.

(In thousands of Canadian dollars, except per share amounts)

19. Employee future benefits (continued):

(a) Actuarial assumptions:

The principal actuarial assumptions (expressed as weighted averages) were as follows:

	2011	2010
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	4.25%	5.00%
Discount rate at the end of preceding period used to determine the benefit cost	5.00%	5.75%
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%	3.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

(b) Discount rate:

The discount rate was selected based on the Canadian Institute of Actuaries educational note published in September 2011.

(c) Expected rate of return on assets:

The Company must make assumptions about the expected long-term rate of return on plan assets, but there is no assurance that a plan will be able to earn the assumed rate of return. In determining the long-term rate of return assumption, the Company considers historical returns and input from investment advisors.

(In thousands of Canadian dollars, except per share amounts)

19. Employee future benefits (continued):

(d) Mortality assumptions:

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

	2011	2010
Longevity at age 65 for current pensioners:		
Males	19	19
Females	22	22
Longevity at age 65 for current member aged 45:		
Males	19	19
Females	22	22

The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above. For the Company, an increase in life expectancy of one year across all age groups would result in a $90 increase in the defined benefit obligation as of December 31, 2011.

(e) Historical information:

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of the defined benefit obligation	$ 4,273	$ 3,631	$ 3,129
Fair value of plan assets	3,531	3,332	2,855
Deficit in the plan	$ 742	$ 299	$ 274
Experience adjustments arising on plan liabilities	$ 377	$ 354	$ 534
Experience adjustments arising on plan assets	132	(226)	(20)

20. Long-term incentive plan:

Under the LTIP, the Company may grant participants restricted share units, retirement deferred share units, or post-retirement deferred share units, collectively referred to as LTIP Units. The characteristics of each are as follows:

(a) RSU:

RSUs generally vest over three years (one-third each year) after the date of grant and is redeemable for either one Common Share or for an amount in cash equal to the fair market value of one Common Share (at the option of the Company). The fair value of each tranche of the three year vesting period is determined as at grant date, and is recognized as salary expense over its respective vesting period. RSU participants are entitled to receive dividends on all RSUs held for their account prior to the applicable vesting date. Unvested RSUs will typically be forfeited if the participant resigns or is terminated prior to the applicable vesting date. Forfeited RSUs will be sold and the proceeds returned to the Company, or as otherwise directed.

(b) Retirement DSU:

Retirement DSUs generally vest three years after the date of grant and become redeemable only on the participant's termination of employment. Retirement DSUs are redeemable either for one common share or for an amount in cash equal to the fair market value of one common share (at the option of the Company). The value of the award is determined at grant date, and the related salary expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. Participants are entitled to receive cash bonuses or additional Units equivalent to the dividends payable had those Units been common shares. The number of DSUs awarded as bonus is determined based on the fair market value of those DSUs on the date credited.

(In thousands of Canadian dollars, except per share amounts)

20. Long-term incentive plan (continued):

(c) Post-Retirement DSU:

Post-Retirement DSUs vest at such times as determined by the Company, with each being redeemable for one Common Share issued from treasury of the Company. Except in certain circumstances or in the retirement of participant, any unvested LTIP Units will terminate on their termination date. The value of the award is determined as at grant date, and related salary expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied, not exceeding five years following the date the participant ceases to be an employee or a director.

No Post-Retirement DSUs were awarded during the year ended December 31, 2010.

The fair value at grant date is calculated with reference to the closing price of the Company's common shares on the Toronto Stock Exchange ("TSX") for the five business days preceding grant date.

The change in the number of awards outstanding, and their related weighted average grant prices for the year ended December 31, 2011 were as follows:

	RSU	Retirement DSU	Post-retirement DSU	Total
Awards outstanding, January 1, 2011	7,854	829,515	–	837,369
Granted (at $10.24 per unit)	–	321,918	24,819	346,737
Exercised	(7,854)	–	–	(7,854)
Forfeited	–	(25,181)	–	(25,181)
Awards outstanding, December 31, 2011	–	1,126,252	24,819	1,151,071
Total vested awards	–	268,478	24,819	293,297
Share-based compensation expense				$ 3,260

(In thousands of Canadian dollars, except per share amounts)

20. Long-term incentive plan (continued):

While the Fund offered an LTIP arrangement similar to that described above prior to the Reorganization (note 1), the classification of Fund Units as financial liabilities for purposes other than financial statement presentation (as described per note 22 below), resulted in the classification of LTIP awards as debt instruments, and re-valued at each reporting period based on the market value of the underlying Fund Units. The change in fair value of the LTIP awards has been reported as Interest expense related to LP Units and LTIP awards for the comparative 2010 period. On January 1, 2011 pursuant to the Reorganization (note 1), the LTIP units were considered share-based payments in accordance with IFRS 2, Share-based Payment ("IFRS 2"), and therefore, the balance payable to LTIP unit holders was reclassified to Contributed Surplus.

As at December 31, 2010, the Fund's LTIP program had the following properties:

	RSU	DSU	Total
Awards outstanding, January 1, 2010	19,461	773,507	792,968
Granted (at $10.46 per unit)	–	338,673	338,673
Exercised	(11,607)	(196,594)	(208,201)
Forfeited	–	(86,071)	(86,071)
Awards outstanding, December 31, 2010	7,854	829,515	837,369
Total vested Awards	–	185,764	185,764
Share-based compensation expense			$ 3,601

21. Share capital:

(a) Common shares:

The Company is authorized to issue an unlimited number of common shares, with no par value. On January 1, 2011, pursuant to the Reorganization (note 1), 47,940,409 common shares were issued in exchange on a one-for-one basis for all outstanding Fund's Units and LP Units.

(In thousands of Canadian dollars, except per share amounts)

21. Share capital (continued):

(b) Preferred shares:

The Company is authorized to issue 10 million preferred shares, with no limit on their value. As of December 31, 2011, no preferred shares were issued or outstanding.

(c) Dividends:

Dividends are declared in Canadian dollars. The monthly dividend rate was $0.065 for the year ended December 31, 2011 (2010 - $0.079). The Company continued to declare the same monthly dividend amount in January and February of 2012.

The change in share capital, including contributed surplus was as follows:

	Number of Fund Units	Number of common shares	Stated capital	Contributed surplus
Balance, January 1, 2010	42,280,489	–	$ 415,626	$ –
Exchange of LP Units for Fund Units	272,132	–	2,714	–
Settlement of LTIP awards through treasury	–	–	169	–
Shares issued under LTIP	196,594	–	1,600	–
Balance, December 31, 2010	42,749,215	–	420,109	–
Exchange of Fund Units on Reorganization (note 1)	(42,749,215)	42,749,215	–	–
Exchange of LP Units on Reorganization (note 1)	–	5,191,194	53,729	–
LTIP - reclassification as equity-based awards (note 32)	–	–	–	5,449
LTIP non-cash expense and DRIP - current year	–	–	–	3,272
Balance, December 31, 2011	–	47,940,409	$ 473,838	$ 8,721

21. Share capital (continued):

As discussed in note 1, prior to the Reorganization, the Company operated under an income trust structure, where the equity of the Fund was held in the form of Units and LP Units. A description of the Fund's Units and LP Units was as follows:

The Fund was authorized to issue an unlimited number of Units and an unlimited number of special voting units ("Special Voting Units"). Special Voting Units were not entitled to any beneficial interest in any distribution from the Fund. The Special Voting Units were issued in series and only in connection with, or in relation to, LP Units or other securities that were, 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 were redeemable at any time on demand by the unitholders up to an aggregate maximum monthly amount of $50. Trustees could, in their sole discretion, waive this limitation. The redemption price was calculated based on the lesser of:

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

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

During the period, an assessment by the Company of the characteristics of the Fund's Units and LP Units against the criteria set forth per IAS 32, Financial Instruments - Presentation ("IAS 32"), determined that while Units and LP Units had the characteristics of financial liabilities (puttable financial instruments), presentation as equity was allowed if certain criteria were met. Against these criteria, Fund Units qualified for classification as equity given the Fund's ability to affect distributable cash, but LP Units did not given the need for these units to be converted to Fund Units in order to be the most subordinate class.

On January 1, 2011, all outstanding Units and LP Units were exchanged on a one-for-one basis for common shares of the Company.

(In thousands of Canadian dollars, except per share amounts)

21. Share capital (continued):

Due to the classification of Fund Units and LP Units as financial liabilities for all purposes other than financial statement presentation (as detailed above), transactions related to the Company's LTIP plan and Contributed Surplus were reported through profit or loss for the comparative 2010 period. Pursuant to the Reorganization (note 1), LTIP units were deemed to be equity-based awards in accordance with IFRS 2 and, therefore, the balance payable to LTIP unit holders was reclassified to Contributed Surplus.

22. Payable to LP unitholders on investment:

This balance represents LP Units reclassified as financial liabilities, pursuant to their assessment against IAS 32 as discussed per note 32. The amount payable can be broken down as follows:

	Units issued		Amount
Opening balance, January 1, 2010	5,463,326	$	53,649
Exchanged units during the year	(272,132)		(2,713)
Fair value adjustment	–		2,793
Balance, December 31, 2010	5,191,194		53,729
Exchanged units	(5,191,194)		(53,729)
Balance, December 31, 2011	–	$	–

On January 1, 2011, pursuant to the Reorganization (note 1), all Unit and LP Units were exchanged on a one-to-one basis for common shares of the Company, and therefore, no amount remained outstanding as at December 31, 2011.

23. Earnings per share:

Basic earnings per share was calculated by dividing earnings attributable to common shares by the sum of the weighted average number of common shares outstanding during the period, plus vested DSUs (see note 20).

Diluted earnings per share was calculated using the basic calculation described above, and adjusting for the potentially dilutive effect of total number of additional common shares that would have been issued by the Company on unvested DSUs.

(In thousands of Canadian dollars, except per share amounts)

23. Earnings per share (continued):

The following details the earnings per share, basic and diluted, calculations for the year ended December 31, 2011:

Earnings attributable to common shares (basic and diluted)	$	24,903
Weighted average number of common shares (in actual number of shares):		
January 1, 2011		47,940,409
Vested LTIP awards		293,297
Basic		48,233,706
Dilutive effect of unvested LTIP awards		424,729
Diluted		48,658,435
Earnings per share:		
Basic	$	0.52
Diluted		0.51

As described per note 32, except for financial statement presentation purposes, all Fund and LP Units) of the Fund were classified as financial liabilities under IFRS. As a result, earnings per share have not been presented for the comparative 2010 period.

24. Segmented information:

The Company offers human resource consulting, outsourcing, employee assistance, and health management services, delivering solutions to assist employers in managing the financial security, health and productivity of their employees. As at December 31, 2011, on the basis of type of services provided and in accordance with IFRS 8, Operating Segments, the Company was represented by and had one reportable segment.

The Company operates primarily within two geographical areas: Canada and the United States.

(In thousands of Canadian dollars, except per share amounts)

24. Segmented information (continued):

The following details the revenues and total assets by geographical area, reconciled to the Company's consolidated financial statements:

	2011	2010
Revenue:		
Canada	$ 349,995	$ 315,004
United States	14,993	20,190
Consolidated total	$ 364,988	$ 335,194

	December 31, 2011	December 31, 2010	January 1, 2010
Total assets:			
Canada	$ 660,581	$ 641,097	$ 650,753
United States	7,508	8,758	7,488
Consolidated total	$ 668,089	$ 649,855	$ 658,241

25. Supplementary cash flow information:

Change in non-cash operating working capital was as follows:

	2011	2010
Trade and other receivables	$ (564)	$ (6,075)
Unbilled fees, current and non-current	(5,759)	1,260
Prepaid expense and other	(1,282)	1,415
Deferred implementation costs, current and non-current	(5,582)	(2,444)
Trade and other payables	6,329	972
Deferred revenue	666	(211)
	$ (6,192)	$ (5,083)

(In thousands of Canadian dollars, except per share amounts)

25. Supplementary cash flow information (continued):

Excluded from the consolidated statement of cash flows were non-cash accruals of $680 related to leasehold improvement additions that will be fully recovered from the Company's landlord.

26. Related parties:

These consolidated financial statements include the assets, liabilities, revenue and expenses of the Company's subsidiaries; all intercompany balances and transactions have been eliminated upon consolidation and therefore, are not disclosed in this note.

Compensation of key management personnel:

Key management personnel include the Company's executive officers and directors; remuneration related to this group was as follows:

	2011	2010
Salaries and other short-term employees benefits	$ 4,246	$ 4,322
Share-based payments	2,073	1,324
	$ 6,319	$ 5,646

27. Salary, benefit and contractor:

The Company's salary, benefit and contractor expenses comprised of the following:

	2011	2010
Salaries and other benefits	$ 196,134	$ 183,307
Contractors	41,010	38,018
	$ 237,144	$ 221,325

(In thousands of Canadian dollars, except per share amounts)

28. Commitments:

The Company has lease commitments for office premises and equipment with options for renewal. As at December 31, 2011 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:

	Gross commitment	Sublease income	Net commitment
2012	$ 9,571	$ (2,157)	$ 7,414
2013	9,449	(2,098)	7,351
2014	9,307	(2,098)	7,209
2015	8,817	(2,098)	6,719
2016	8,373	(2,116)	6,257
Thereafter	48,000	(8,479)	39,521
Total	$ 93,517	$ (19,046)	$ 74,471

The Company is party to various subleases to which the Company would be liable for the rental payment in the case of a default by the subtenants. The minimal payments and the aggregate sublease income related to these premises have been included above. The Company considers the risk of default by the subtenants to be low therefore no accrual has been set up.

29. Contingencies:

(a) Lawsuits and legal claims:

From time to time, the Company is involved in routine litigation incidental to the Company'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 Company.

29. Contingencies (continued):

(b) Business combinations:

The Company has obligations to pay additional consideration for prior acquisitions, typically based upon performance measures contractually agreed at the time of purchase. In the acquisition of Jacques Lamarre & Associates (note 4(b)), contingent consideration based upon financial performance was agreed at the time of purchase with payment expected to be finalized in October 2013. As at December 31, 2011, the contingent consideration has been recognized as an acquisition liability on the consolidated statements of financial position at the estimated discounted value.

30. Subsequent events:

On January 31, 2012, the Company completed the acquisition of the SBC Systems Company Inc. ("SBC Systems") business, a company specializing in providing employee benefits administration systems in the United States. This acquisition will provide the Company with a suite of flexible administration products and a technology platform that will allow it to further build its outsourcing business, broadening its distribution channel to reach more U.S. clients. The purchase price is contingent on future business results and is expected to approximate $6,000 payable in three instalments. The first instalment of $5,000 was satisfied on closing through cash consideration. The second and final instalments of $500 each, are subject to revenue adjustments, and will be settled in March 2013 and 2014, respectively. As at December 31, 2011, no amount has been recognized on the statement of financial position.

This acquisition will be accounted for using the purchase method of accounting. The purchase price allocation presented below is preliminary pending the valuation of the net identifiable assets acquired and liabilities assumed.

(In thousands of Canadian dollars, except per share amounts)

30. Subsequent events (continued):

The preliminary estimated fair values as of the acquisition date of the assets acquired and liabilities assumed are as follows:

Cash	$ 215
Accounts receivable	234
Investments	30
Capital assets	250
Intangible assets	5,720
Deferred revenue	(449)
	$ 6,000

Intangible assets acquired consist of customer relationships, customer contracts, and proprietary software. The valuation of the net assets acquired had not been finalized as a result of the proximity of the acquisition date to the release date of these consolidated financial statements. Upon finalization of the valuation of the net assets acquired during the measurement period, any excess of the purchase price over net assets acquired will be allocated to goodwill.

These consolidated financial statements do not include the results of SBC Systems given the acquisition date of January 31, 2012.

31. Management of capital:

The Company views its capital as the combination of its cash (bank indebtedness), long-term debt, and shareholders' equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining dividends to its shareholders and the growth of the Company's business through organic growth and new acquisitions.

The Company 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 Company may adjust the amount of dividends paid to shareholders, issue new or repurchase existing shares and assume new or repay existing debt.

31. Management of capital (continued):

No changes were made in the objectives, policies or processes for managing capital during the year.

The credit facilities require the Company to maintain certain financial covenants. Management also uses these ratios as key indicators in managing the Company's capital. Dividends are made to shareholders monthly. Ratios of dividends to free cash flow, cash from operating activities, and EBITDA are used by management to assist with the determination of dividends.

The Company is subject to externally imposed capital requirements to maintain certain financial covenants as mentioned above. The Company complied with all the required financial covenants at December 31, 2011.

32. Transition to IFRS:

These audited annual consolidated financial statements represent the Company's first annual consolidated financial statements prepared in accordance with IFRS, as issued by the IASB. The Company adopted IFRS in accordance with IFRS 1 as at the Transition Date.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the years ended December 31, 2011 and 2010, and in the preparation the Company's opening statement of financial position at January 1, 2010. In preparing its opening IFRS statement of financial position, the Company has adjusted certain amounts previously prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the financial position, financial performance, and equity is set out in the following reconciliations and the notes that accompany them.

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the amended financial statements prepared under IFRS. While the transition from Canadian GAAP to IFRS resulted in the movement of finance costs and income taxes paid into the body of the Company's unaudited consolidated statement of cash flows as part of operating activities (disclosed as supplementary information under Canadian GAAP), it did not result in any changes to the operating, investing, or financing cash flows of the Company; as a result, a reconciliation of the Company's consolidated statement of cash flows has not been presented.

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Reconciliation of consolidated statement of financial position as at January 1, 2010:

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS 1 adjustment	Effect of transition to IFRS	IFRS balance	IFRS account classification
Assets						
Current assets:						
Cash		$ 1,596	$ –	$ –	$ 1,596	Cash
Accounts receivable		55,018	–	–	55,018	Trade and other receivables
Unbilled fees		17,526	–	–	17,526	Unbilled fees
Income taxes recoverable		226	–	–	226	Income taxes recoverable
Prepaid expenses and other	(b)	3,298	(95)	–	3,203	Prepaid expenses and other
Cash and investments held in trust		–-	-	9,313	9,313	Cash and investments held in trust
Deferred implementation costs		167	–	–	167	Deferred implementation costs
Total current assets		77,831	(95)	9,313	87,049	
Non-current assets:						
Foreign exchange contracts		479	–	–	479	Foreign exchange contracts
Deferred implementation costs		929	–	–	929	Deferred implementation costs
Capital assets		15,333	–	–	15,333	Capital assets
Intangible assets		253,659	–	–	253,659	Intangible assets
Goodwill		300,792	–	–	300,792	Goodwill
Total non-current assets		571,192	–	–	571,192	
Total assets		$ 649,023	$ (95)	$ 9,313	$ 658,241	

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS 1 adjustment	Effect of transition to IFRS	IFRS balance	IFRS account classification
Liabilities and Equity						
Current liabilities:						
Accounts payable and accrued liabilities	(b)	$ 38,796	$ 274	$ (300)	$ 38,770	Trade and other payables
Deferred revenue		1,795	–	–	1,795	Deferred revenue
Insurance premium liabilities		-	–	9,313	9,313	Insurance premium liabilities
Long-term debt		11,500	–	–	11,500	Long-term debt
Promissory note		4,306	–	–	4,306	Promissory note
Future consideration related to acquisition		2,457	–	–	2,457	Future consideration related to acquisition
Unitholder distribution payable		3,759	–	–	3,759	Dividends payable
Total current liabilities		62,613	274	9,013	71,900	
Insurance premium liabilities:						
Payable to insurance companies		9,313	–	(9,313)	–	
Less related cash and investments held		9,313	–	(9,313)	–	
		–	–	–	–	
Non-current liabilities:						
Long-term debt		158,887	–	–	158,887	Long-term debt
	(k)	–	–	53,649	53,649	Payable to LP unitholders on investment
Interest rate swaps		6,656	–	–	6,656	Interest rate swaps
Other liabilities		10,206	–	(3,336)	6,870	Other liabilities
Future consideration related to acquisition	(a)		3,772	–	3,772	Future consideration related to acquisition
	(k)	–	–	3,956	3,956	Payable to LTIP unitholders
		–	–	3,636	3,636	Provisions
Future income taxes	(m)	12,179	7,153	–	19,332	Deferred taxes liability
Total non-current liabilities		187,928	10,925	57,905	256,758	
Total liabilities		250,541	11,199	66,918	328,658	
Minority interest	(k)	46,137	(46,137)	–	–	

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS 1 adjustment	Effect of transition to IFRS	IFRS balance	IFRS account classification
Equity:						
Unitholders' capital	(m)	415,667	(41)	–	415,626	Share capital
Contributed surplus	(k)	3,835	–	(3,835)	–	Contributed Surplus
Accumulated other comprehensive loss	(c),(m)	(5,945)	553	–	(5,392)	Accumulated other comprehensive loss
Deficit	(a), (b), (c), (k), (m)	(61,212)	(11,806)	(7,633)	(80,651)	Deficit
		352,345	(11,294)	(11,468)	329,583	
	(k)	–	46,137	(46,137)	–	Non-controlling interest (equity)
Total equity		352,345	34,843	(57,605)	329,583	
Total liabilities and equity		$ 649,023	$ (95)	$ 9,313	$ 658,241	

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Reconciliation of consolidated statement of financial position as at December 31, 2010:

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS 1 adjustment	Effect of transition to IFRS	IFRS balance	IFRS account classification
Assets						
Current assets:						
Cash		$ 360	$ –	$ –	$ 360	Cash
Accounts receivable		61,093	–	–	61,093	Trade and other receivables
Unbilled fees		16,266	–	–	16,266	Unbilled fees
Income taxes recoverable		386	–	–	386	Income taxes recoverable
Prepaid expenses and other	(b),(f)	1,896	(95)	(13)	1,788	Prepaid expenses and other
Cash and investments held in trust		-	–	13,946	13,946	Cash and investments held in trust
Deferred implementation costs		659	–	–	659	Deferred implementation costs
Total current assets		80,660	(95)	13,933	94,498	
Non-current assets:						
Deferred implementation costs		2,881	–	–	2,881	Deferred implementation costs
Capital assets		17,034	–	–	17,034	Capital assets
Intangible assets		234,650	–	–	234,650	Intangible assets
Goodwill		300,792	–	–	300,792	Goodwill
Total non-current assets		555,357	–	–	555,357	
Total assets		$ 636,017	$ (95)	$ 13,933	$ 649,855	

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS 1 adjustment	Effect of transition to IFRS	IFRS balance	IFRS account classification
Liabilities and Equity						
Current liabilities:						
Accounts payable and accrued liabilities	(b),(f)	$ 39,852	$ 274	$ (603)	$ 39,523	Trade and other payables
		453	–	–	453	Income taxes payable
Deferred revenue		1,584	–	–	1,584	Deferred revenue
Insurance premium liabilities		-	–	13,946	13,946	Insurance premium liabilities
Future consideration related to acquisition	(a), (e)	–	3,772	900	4,672	Future consideration related to acquisition
Long-term debt		11,500	–	–	11,500	Long-term debt
Total current liabilities		53,389	4,046	14,243	71,678	
Insurance premium liabilities:						
Payable to insurance companies		13,946	–	(13,946)	–	
Less related cash and investments held		13,946	–	(13,946)	–	
		–	–	–	–	
Non-current liabilities:						
Long-term debt		183,355	–	–	183,355	Long-term debt
	(k)	–	–	53,729	53,729	Payable to LP unitholders on investment
Interest rate swaps		4,424	–	–	4,424	Interest rate swaps
Other liabilities		8,575	–	(1,890)	6,685	Other liabilities
		–	–	2,390	2,390	Provisions
	(k)	–	–	5,449	5,449	Payable to LTIP unitholders
Future income taxes	(m)	5,909	7,153	(1,242)	11,820	Deferred taxes liability
Total non-current liabilities		202,263	7,153	58,436	267,852	
Total liabilities		255,652	11,199	72,679	339,530	
Minority interest	(k)	41,591	–	(41,591)	–	
Equity:						
Unitholders' capital	(m)	419,342	(41)	808	420,109	Share capital
Contributed surplus	(k)	5,293	–	(5,293)	–	Contributed Surplus
Accumulated other comprehensive loss	(g),(i),(m)	(3,192)	553	284	(2,355)	Accumulated other comprehensive loss
Deficit	(a), (b), (c), (e), (f), (g), (i), (k), (m)	(82,669)	(11,806)	(12,954)	(107,429)	Deficit
Total equity		338,774	(11,294)	(17,155)	310,325	
Total liabilities and equity		$ 636,017	$ (95)	$ 13,933	$ 649,855	

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Reconciliation of consolidated statement of income and comprehensive income for the year ended December 31, 2010:

Canadian GAAP account classification	Note	Canadian GAAP balance	Effect of transition to IFRS	IFRS reclassification	IFRS balance	IFRS account classification
Revenue:						
Fees		$ 314,177	$ –	$ –	$ 314,177	Fees
Commissions		20,779	–	–	20,779	Commissions
Other		238	–	–	238	Other income
Total revenue		335,194	–	–	335,194	Total operating revenue
Expenses:						
Salary, benefit and contractor	(f)	221,325	(90)	–	221,235	Salary, benefit and contractor
Other operating		60,330	–	(60,330)	–	
Amortization of capital assets		4,645	–	24,490	29,135	Depreciation, amortization and impairment losses
Amortization of intangible assets		22,073	–	(22,073)	–	
		–	–	16,722	16,722	Rent and occupancy
	(g)	–	(207)	41,191	40,984	Office and administration
		308,373	(297)	–	308,076	Total Operating expenses
		26,821	(297)	–	27,118	Profit before finance costs, contingent consideration related to business acquisitions and income taxes
Interest expense	(i)	10,461	69	–	10,530	Finance costs
	(k)	–	7,810	–	7,810	Interest expense related to LP Units and LTIP awards
	(e)		900	–	900	Contingent consideration related to acquisition
Income before income taxes and non-controlling interest		16,360	(8,482)	–	7,878	Profit before income taxes
Income taxes (recovery):						Income taxes (recovery)
Current		837	–	–	837	Current
Future	(m)	(5,747)	(820)	–	(6,567)	Deferred
		(4,910)	(820)	–	(5,730)	
Income before non-controlling interest		21,270	(7,662)	–	13,608	Profit after taxes

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

Canadian GAAP account classification	Note	Canadian GAAP balance	IFRS changes in accounting policies	IFRS reclassification	IFRS balance	IFRS account classification
Non-controlling interest	(k)	2,341	(2,341)	–	–	
Net income		18,929	(5,321)	–	13,608	Profit for the year
Other comprehensive income:						
Unrealized gain on interest rate swap hedges, net of tax effect	(i),(m)	2,753	491	–	3,244	Change in interest rate cash flow hedges, net of tax effect
	(g)		(207)		(207)	Foreign currency translation differences for foreign operations
		2,753	284	–	3,037	
Comprehensive income for the year		$ 21,682	$ (5,037)	$ –	$ 16,645	

32. Transition to IFRS (continued):

Application of IFRS 1:

IFRS 1 sets forth guidance for the initial adoption of IFRS. The Company has applied the following IFRS 1 optional exemptions and mandatory exceptions from full retrospective application of IFRS upon conversion from Canadian GAAP to IFRS to its opening statement of financial position as the Transition Date:

(a) Business combinations:

IFRS 1 provides the option to apply IFRS 3, Business Combinations ("IFRS 3"), retrospectively as at a certain date, or prospectively from the Transition Date. The Company has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the Transition Date and therefore, such business combinations have not been restated.

Goodwill arising on business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP, but was tested for impairment as at the Transition Date as a result of applying this exemption. No impairment existed as at the Transition Date.

The Company has recognized into opening deficit contingent consideration of $3,772 related to the Leong & Associates acquisition as IFRS requires contingent consideration to be recorded at fair value.

32. Transition to IFRS (continued):

(b) Employee benefits:

IFRS 1 provides the option not to retrospectively apply IAS 19 related to the recognition of actuarial gains and losses using the corridor approach, and allows for the recognition of the cumulative gains and losses deferred under Canadian GAAP into opening retained earnings as at the Transition Date. The Company has elected not to retrospectively apply IAS 19, and therefore, recognized the cumulative actuarial loss of $369 that existed as at the Transition Date into opening deficit for its defined benefit plan.

(c) Hedge accounting:

Hedge accounting may be applied from the Transition date only to hedging relationships that meet the requirements for hedging at that date. As at the Transition Date, the Company has assessed on a retrospective and prospective basis, the relationship of its cash flow hedges established under Canadian GAAP, and has re-designated the hedging relationships in accordance with IFRS. The effective portion of the cash flow hedges as at the Transition Date has been assessed, and the ineffective portion of $234 has been recognized to opening deficit as at the Transition Date.

(d) Estimates:

IFRS 1 provides that the Company's estimates under IFRS as at the Transition Date should be consistent to those made for the same date under Canadian GAAP, unless objective evidence exists that those estimates were in error. Hindsight cannot be used to create or revise estimates. As a result, those estimates previously made by the Company have not been revised for application of IFRS except where necessary to reflect any differences in accounting policies.

32. Transition to IFRS (continued):

Notes to reconciliations:

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, certain significant differences exist in matters or recognition, measurement, and disclosure. While the adoption of IFRS has not impacted the Company's actual cash flows, it has resulted in certain changes to the Company's financial position and operating results. In addition to those mandatory exemptions and elections set forth above, the following narratives explain the significant differences between the Company's previous historical Canadian GAAP accounting policies and the current IFRS policies adopted.

(e) Business combinations:

As allowable per the IFRS 1 exemption detailed in note 1 above, the Company elected to apply IFRS 3 prospectively as at the Transition Date. Consequently, business combinations concluded prior to January 1, 2010 have not been restated and the carrying amount of goodwill under IFRS as at January 1, 2010 is equal to the carrying amount under Canadian GAAP as at that date.

Under previous Canadian GAAP, contingent consideration to be paid is included in the purchase price only if the amount can be reasonably estimated and obligation to pay this amount is reasonably assured. Under IFRS, contingent consideration is measured at its fair value as at the date of acquisition and included in the purchase price; any subsequent changes will be recognized through comprehensive income or through profit or loss, depending on its classification as equity or liability.

As noted in (a) above, upon transition, the Company recognized $3,772 as contingent consideration. For the year ended December 31, 2010, an additional $900 of expense was recognized representing the additional contingent consideration that could reasonably be estimated related to the final instalment payable on the Leong & Associates acquisition

32. Transition to IFRS (continued):

(f) Employee future benefits:

As allowable per IFRS 1, the Company elected to recognize the cumulative actuarial losses as at the Transition Date into opening deficit for its employee defined benefit plans.

The recognition of the cumulative actuarial loss as at the Transition Date resulted in the reduction of deficit and trade and other payables, net of prepaid of $90 for the year ended December 31, 2010 respectively.

(g) Foreign currency translation:

IFRS 1 provides an exemption to not retrospectively apply IAS 21, The Effects of Changes in Foreign Exchange Rates, but rather allows for the cumulative translation gains and losses to be reset to zero at the Transition Date. Since the Company's foreign operations were assessed to be an integrated foreign operation under Canadian GAAP, no cumulative translation difference existed, and therefore, the exemption was not applied. The IFRS adjustments below will apply commencing on Transition Date.

Under IFRS, the functional currency of the Company’s foreign operations should be denominated in and reflect the underlying transactions, events, and economic conditions in which it operates. The functional currency of the Company’s United States and New Caledonia-based operations were determined to be U.S. dollar and CFP Franc, respectively. As such, the foreign currency translation gains and losses in re-translating to the Company’s functional currency were required to be recognized separately into other comprehensive income. For the year ended December 31, 2010, deficit was reduced by $207 as a result of this change, and other comprehensive loss was increased by a corresponding amount.

32. Transition to IFRS (continued):

(h) Impairment of assets:

IFRS requires impairment testing to be conducted at the cash-generating unit ("CGU") level (where a CGU is defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets), and recoverable amount to be based on net present value using discounted cash flows. An impairment test as of January 1, 2010 and December 31, 2010 did not identify an impairment; as a result, no impact to the Company related to this change in testing methodology.

(i) Hedge accounting:

In accordance with IFRS 1, cash flow hedging relationships existing prior to the Transition Date were re-assessed and re-designated as at January 1, 2010.

Under IFRS, the use of the short cut method or the critical terms match method to assess and measure ineffectiveness of a hedging relationship is not permitted. Ineffectiveness must be measured at each reporting period throughout the life of the hedging relationship. The ineffective portion of the cash flow hedge for the year ended December 31, 2010 resulted in an increase in deficit of $69, and a corresponding change, net of tax effect, of $51 in other comprehensive income.

(j) Provisions, contingent liabilities, and contingent assets:

IFRS requires the recognition of a provision in instances where a current obligation is "more likely than not" to exist, and can be dictated by the past and confirmed in the future. The lower provisional threshold did not result in any material change to the Company's financial position at December 31, 2010.

32. Transition to IFRS (continued):

(k) Financial instruments - presentation:

Previous Canadian GAAP classified Fund Units as equity instruments for financial statement purposes, and LP Units gave rise to non-controlling interest for the Fund. Under IFRS, the Fund Units and LP Units are considered a financial liability instruments as they are redeemable at the option of the holder however if certain criteria are met the financial instruments may be presented as equity. While the characteristics of Fund Units met the criteria for presentation as equity for financial statement purposes only the LP Units did not. The Company has elected to designate the LP Units as a financial liability at FVTPL. Therefore, these units are remeasured at fair value at each reporting date.

The treatment of LP Units as financial liabilities resulted in the following adjustments to the Company's financial statements for the comparative 2010 period:

- Distributions made on LP Units of $4,982 for the year December 31, 2010 were classified as Interest Expense related to LP Units and LTIP awards, increasing deficit and payable to LP unitholders on investment in the same amounts;

- Reversal of non-controlling interest (under Canadian GAAP) of $2,341 for year ended December 31, 2010 related to LP Units' share of profit, resulted in a reduction in deficit and increase in payable to LP unitholders on investment in the same amount;

- LP Units fair valued on January 1, 2010, based on the fair value of the underlying Fund Units; this change resulted in an increase in deficit and payable to LP unitholders on investment of $7,512;

- LP Units fair valued and reported as Interest Expense related to LP Units and LTIP awards for the year ended December 31, 2010, based on the fair value of the underlying Fund Units; this change resulted in an increase in deficit and payable to LP unitholders on investment of $2,793; and

- Classification of Minority Interest (under Canadian GAAP) of $46,173 and $41,591 as at January 1, 2010 and December 31, 2010 as payable to LP unitholders on investment.

Similarly, since Fund Units were classified as a financial liability for purposes other than financial statement presentation, LTIP awards granted for the comparative 2010 period were also considered cash-settled and thus classified as a liability. The treatment of LTIP units as financial liabilities resulted in the following adjustments to the Company's financial statements for the comparative 2010 period:

- Classification of Contributed Surplus (under Canadian GAAP) of $3,835 and $5,293 as at January 1, 2010 and December 31, 2010 as a financial liability, payable to LTIP unitholders;

- LTIP awards fair valued on January 1, 2010, based on the fair value of the underlying Fund Units; this change resulted in an increase in deficit and payable to LTIP unitholders of $121; and

- LTIP awards fair valued and reported as Interest Expense related to LP Units and LTIP awards as at December 31, 2010, based on the fair value of the underlying Fund Units; this change resulted in an increase in deficit and payable to LTIP unitholders of $35.

(l) Share-based compensation:

Under IFRS, an estimate of the number of award forfeitures is required as at grant date, and should be revised based on actual in each subsequent reporting period. For the year ended December 31, 2010, based on a review of historical forfeiture rates, management has determined there to be no material impact on the Company's financial results related to this change and therefore, no reconciliation item has been presented.

(m) Income taxes:

Under IFRS, deferred income taxes are generally recognized for all temporary differences, except to the extent that the deferred tax arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). In addition, deferred income taxes are recognized on initial recognition for intangible assets acquired from all business combinations including asset purchases. Deferred income tax assets arising from share issuance

(In thousands of Canadian dollars, except per share amounts)

32. Transition to IFRS (continued):

costs are recognized through equity in the period in which they are realized. Under previous Canadian GAAP, deferred income tax assets arising from share issuance costs are recognized in profit or loss in the period in which the tax benefit is realized.

IFRS requires income tax assets and liabilities to be measured using the income tax rates and income tax laws that are expected to apply to the period when the asset is realized or the liability is settled, that have been enacted or substantively enacted at the end of the reporting period.

The transition to IFRS resulted in an increase to deferred income tax liabilities primarily related to the re-measurement of temporary differences on certain intangible assets that was not required under previous Canadian GAAP, and the increase in tax rate used to measure temporary differences related to the Fund and its flow-through subsidiaries.

The differences detailed above and the transitional IFRS adjustments discussed in this note resulted in the following tax adjustments in each period:

	Deferred taxes liability	Share capital	Retained earnings (deficit)	Other comprehensive income
January 1, 2010	$ 7,153	$ (41)	$ (7,432)	$ 319
December 31, 2010	(1,242)	–	820	422