MORNEAU SHEPELL

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

and

MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Quarter Ended March 31, 2011

MORNEAU SHEPELL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In thousands of dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current			
Cash	$ -	$ 360	$ 1,596
Trade and other receivables	63,528	61,093	55,018
Unbilled fees	17,313	16,266	17,526
Income taxes recoverable	383	386	226
Prepaid expenses and other	3,580	1,788	3,203
Deferred implementation costs	792	659	167
Total Current Assets	85,596	80,552	77,736
Non-Current			
Foreign exchange contracts	-	-	479
Deferred implementation costs	4,103	2,881	929
Capital assets	17,476	17,034	15,333
Intangible assets (note 5)	232,398	234,650	253,659
Goodwill (note 6)	300,792	300,792	300,792
Total Non-Current Assets	554,769	555,357	571,192
Total Assets	**$ 640,365**	**$ 635,909**	**$ 648,928**

See accompanying notes to unaudited condensed interim consolidated financial statements

MORNEAU SHEPELL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(In thousands of dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Liabilities and Equity			
Current			
Bank indebtedness (note 7)	$ 2,771	$ -	$ -
Trade and other payables	41,281	40,023	39,070
Income taxes payable	537	453	-
Deferred revenues	2,295	1,584	1,795
Current portion of long-term debt (note 7)	11,500	11,500	11,500
Promissory note	-	-	4,306
Future consideration related to acquisition (note 4)	4,672	4,672	2,457
Dividends payable and interest payable to LP unitholders (note 9)	3,116	-	3,759
Total Current Liabilities	66,172	58,232	62,887
Insurance premium liabilities:			
Payable to insurance companies	15,694	13,946	9,313
Less: related cash and investments held	(15,694)	(13,946)	(9,313)
	-	-	-
Non-Current			
Long-term debt (note 7)	184,772	183,355	158,887
Payable to LP unitholders on investment (note 10)	-	53,729	53,649
Interest-rate swaps (note 7)	289	4,424	6,656
Future consideration related to acquisition (note 4)	-	-	3,772
Other liabilities	6,811	6,685	6,870
Provisions	1,834	1,890	3,336
Payable to LTIP unitholders	-	5,449	3,956
Deferred income taxes (note 8)	13,028	11,820	19,332
Total Non-Current Liabilities	206,734	267,352	256,458
Total Liabilities	**272,906**	**325,584**	**319,345**
Equity			
Share capital (note 9)	473,838	420,109	415,626
Contributed surplus (note 9)	6,031	-	-
Deficit	(110,382)	(107,429)	(80,651)
Accumulated other comprehensive loss	(2,028)	(2,355)	(5,392)
Total Shareholders' Equity	**367,459**	**310,325**	**329,583**
Total Liabilities and Equity	**$ 640,365**	**$ 635,909**	**$ 648,928**

Commitments and Contingencies (notes 4, 7, 14)

See accompanying notes to unaudited condensed interim consolidated financial statements

The unaudited condensed interim consolidated financial statements were approved by the Board on May 12, 2011 and signed on its behalf by:

"Robert Chisholm"
Robert Chisholm
Audit Committee Chair

"Alan Torrie"
Alan Torrie
President & CEO

MORNEAU SHEPELL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share amounts)

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
Revenue		
Fees	$ 81,599	$ 77,177
Commissions and other income	3,803	4,248
Total Operating Revenue	$ 85,402	$ 81,425
Expenses		
Salary, benefit and contractor expenses	55,747	53,677
Depreciation, amortization, and impairment losses	5,014	7,878
Rent and occupancy	4,248	4,199
Office and administration	9,798	9,479
Total Operating Expenses	74,807	75,233
Profit Before Finance Costs and Interest Expense	**10,595**	**6,192**
Finance costs (note 7)	3,881	2,642
Interest expense related to LP Units and LTIP awards (note 9 and 10)	-	5,106
Profit (Loss) from Operations Before Income Taxes	**$ 6,714**	**$ (1,556)**
Income taxes (recovery) (note 8)		
Current	166	231
Deferred	90	(1,617)
	256	(1,386)
Profit (loss) for the period	**$ 6,458**	**$ (170)**
Other Comprehensive Income		
Net change in interest rate cash flow hedges (note 7)	(184)	983
Ineffective portion of changes in fair value of previous interest rate cash flow hedges transferred to net income (note 7)	20	96
Net change in previous interest rate cash flow hedges prior to termination (note 7)	78	-
Reclassification to profit due to termination of cash flow hedges (note 7)	384	-
Foreign currency translation differences for foreign operations	29	(191)
Other comprehensive income for the period, net of tax effect	327	888
Comprehensive Income for the period	**$ 6,785**	**$ 718**
Earnings Per Share		
Earnings per share (basic) (note 11)	$ 0.13	NA
Earnings per share (diluted) (note 11)	$ 0.13	NA

See accompanying notes to unaudited condensed interim consolidated financial statements

MORNEAU SHEPELL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of dollars)

For the three months ended March 31, 2011:

	Share Capital	Contributed Surplus	Deficit	Currency Translation Reserve	Hedging Reserve	Total Equity
Balance, January 1, 2011	$ 420,109	$ -	$ (107,429)	$ (207)	$ (2,148)	$ 310,325
Exchange of LP Units on Reorganization (note 1)	53,729	-	-	-	-	53,729
Long-term incentive plan – reclassification as equity-based awards (note 15)	-	5,449	-	-	-	5,449
Long-term incentive plan non-cash expense	-	519	-	-	-	519
Long-term incentive plan – DRIP	-	63	(63)	-	-	-
Profit for the period	-	-	6,458	-	-	6,458
Dividends	-	-	(9,348)	-	-	(9,348)
Other comprehensive income for the period	-	-	-	29	298	327
Balance, March 31, 2011	**$ 473,838**	**$ 6,031**	**$ (110,382)**	**$ (178)**	**$ (1,850)**	**$ 367,459**

For the three months ended March 31, 2010:

	Share Capital	Contributed Surplus	Deficit	Currency Translation Reserve	Hedging Reserve	Total Equity
Balance, January 1, 2010	$ 415,626	$ -	$ (80,651)	$ -	$ (5,392)	$ 329,583
Exchange of LP Units	884	-	-	-	-	884
Settlement of LTIP units through treasury	169	-	(49)	-	-	120
Loss for the period	-	-	(170)	-	-	(170)
Distributions	-	-	(9,991)	-	-	(9,991)
Other comprehensive income for the period	-	-	-	(191)	1,079	888
Balance, March 31, 2010	**$ 416,679**	**$ -**	**$ (90,861)**	**$ (191)**	**$ (4,313)**	**$ 321,314**

See accompanying notes to unaudited condensed interim consolidated financial statements

MORNEAU SHEPELL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Operating activities		
Profit (loss) before taxes	$ 6,458	$ (170)
Items not involving cash:		
Amortization of capital assets	1,636	991
Amortization of intangible assets	3,378	6,887
Finance costs (note 7)	3,881	2,642
Interest related to LP Units and LTIP awards (note 9 and 15)	-	5,106
Long-term incentive plan	519	549
Current income taxes	166	231
Deferred income taxes (recovery)	90	(1,617)
Fair value of forward exchange contracts	-	(19)
Changes in sublease loss provisions	70	(118)
Other	-	(334)
	16,198	14,148
Change in non-cash operating working capital (note 13)	(4,626)	(5,473)
Cash generated from operating activities	11,572	8,675
Finance costs paid	(2,335)	(2,270)
Income taxes paid	(76)	(110)
Cash provided by operating activities	9,161	6,295
Financing activities		
Payment of credit agreement renewal fees	(1,200)	-
Change in revolving loan (note 7)	2,500	3,500
Interest paid to LP unitholders (note 10)	-	(1,283)
Settlement of interest-rate swaps (note 7)	(4,150)	-
Dividends paid	(6,233)	(9,995)
Cash used in financing activities	(9,083)	(7,778)
Investing activities		
Business acquisition – Leong & Associates (note 4)	-	(2,457)
Additions to intangible assets	(1,126)	(1,323)
Purchase of capital assets	(2,083)	(701)
Cash used in investing activities	(3,209)	(4,481)
Net decrease in cash for the period	(3,131)	(5,964)
Cash, beginning of period	360	1,596
Bank indebtedness, end of period	**$ (2,771)**	**$ (4,368)**

See accompanying notes to unaudited condensed interim consolidated financial statements

1. ORGANIZATION AND NATURE OF THE BUSINESS

On December 2, 2010, Morneau Sobeco Income Fund (the "Fund") and Morneau Shepell Inc. (the "Company") entered into a plan of arrangement ("Reorganization"), whereby the Fund was converted from an income trust structure into the public corporation Morneau Shepell Inc., effective January 1, 2011. The Company was incorporated pursuant to the laws of the Province of Ontario on October 21, 2010 for the purposes of participating in the Reorganization.

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

As part of the Reorganization, Morneau Sobeco Group LP was wound up and its assets distributed to Morneau Sobeco GP Inc. ("MS GP") and Morneau Sobeco Trust ("MS Trust") on a pro-rata basis. MS Trust and the Fund were then wound up and their assets ultimately distributed to the Company. MS GP was amalgamated with the Company and other entities of the group. 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 following 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 and future financial statements during 2011 are those of the Fund.

The Company is a Canadian firm providing 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 Sobeco 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 around the globe.

References herein to the Company 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 condensed interim consolidated financial statements have been prepared by management in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") under International Financial Reporting Standards ("IFRS"). These are the Company's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual consolidated financial statements, and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been adopted as at January 1, 2010. In accordance with IFRS, the Company has:

- Provided comparative financial information;
- Applied the same accounting policies throughout all periods presented;
- Elected certain optional exemptions from the general requirement for retrospective application of IFRS; and
- Applied certain mandatory exceptions from full retrospective application of IFRS.

The Company's interim consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). As IFRS and Canadian GAAP differ in some areas, management has amended certain accounting, measurement, and consolidation methods previously applied under 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 15. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous GAAP to those reported for those periods and at the date of transition under IFRS.

These interim consolidated financial statements do not include all the information required for full annual consolidated financial statements, and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with GAAP, and in consideration of the IFRS transitional disclosures included in note 15 to these interim consolidated financial statements.

(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 a shareholding of more than 50% of voting rights. Subsidiaries are fully consolidated from the date control is transferred to the Company, and would be de-consolidated from the date control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intercompany transactions, balances, and unrealized gains and losses between subsidiaries have been eliminated in full 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 statement of financial position:

- Cash (bank indebtedness) are measured at fair value
- Interest-rate swaps are measured at fair value
- 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 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 period.

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 no 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 are as follows:

- Revenue recognition (outsourcing contracts)
  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.

- Unbilled fees
  The Company is required to assess the recoverability of fees on services provided but outstanding to be 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 contractual terms of the engagement, budgeted costs associated with the project, and project forecasts. If future billings differ from estimates, future earnings could be adversely affected.

- Intangible assets (note 5)
  Internally-developed software: The Company is required to estimate the expected period of benefit over which its assets 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.

- Other intangible assets: Other intangible assets consist of those acquired through business acquisitions, whereby the purchase method, involving the allocation of the cost of acquisition to the underlying net assets acquired was used. These allocations involved 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 losses in future periods.

- Goodwill (note 6)
  Similar to other intangible assets, goodwill was acquired through business acquisitions and accounted for using the purchase method, and therefore, those significant estimates and assumptions regarding cash flow projections, growth projections, economic risk, and weighted cost of capital were used. If future events or results differ adversely from these estimates and assumptions, the Company could incur impairment losses in future periods.

- Trade receivable (Allowance for doubtful accounts)
  The Company is required to assess whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and delinquent accounts, taking into consideration customer creditworthiness, current economic trends, and past experience. If future collections differ from estimates, future earnings could be adversely affected.

- Deferred income tax assets and liabilities (utilization of tax losses) (note 8)
  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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.

- Provisions and contingencies
  In identifying required provisions, the Company is required 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 contingencies. If future events or results differ adversely from these estimates, future earnings 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) Foreign currency translation

The consolidated financial statements are presented in Canadian dollar, which is the Company's functional and presentation currency.

Transactions denominated currencies other than the functional currency are recorded at the exchange rates prevailing at the date of the transaction. At each financial position 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.

The Company's consolidated financial statements include the financial position, operating results and cash flows of its foreign subsidiaries, and have been measured using the operating currency of their primary economic environment. Where the operating currency differs from the functional currency of the Company, they have been re-translated to the functional currency of the Company using the exchange rates prevailing as at the date of transaction. Foreign exchange gains and losses resulting from the settlement of these transactions are recognized into other comprehensive income.

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.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and intercompany loans that are not permanent in nature are presented in the Company's consolidated statement of income as Office and Administration expenses. Foreign exchange gains and losses related to intercompany loans that are permanent in nature are included in accumulated other comprehensive income in shareholders' equity until settled.

(b) Revenue recognition and unbilled fees

Revenues include fees generated from 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:

- The amount of revenue can be reliably measured;
- The stage of completion can be reliably measured;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred can be reliably measured.

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 singular 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:

- The delivered item has value to the customer on a stand-alone basis; and
- 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.

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 are recorded at the lower of unbilled hours worked at normal billing rates and the amount which is estimated to be recoverable upon invoicing. The Company maintains a provision for amounts expected to be unrecoverable based on the terms of the agreement.

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.

(c) Deferred implementation costs and deferred outsourcing revenues

Implementation costs incurred in connection with the outsourcing service contracts, relate to those costs necessary to set up clients and their human resource or benefit programs onto the 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 of the implementation component are deferred and amortized over the term of the service contract. For outsourcing contracts where each component is considered a separate unit of accounting, those costs are deferred and amortized over the remaining term of each component.

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

(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. When the Company's cash is in a net overdraft position, it has 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, less impairment, if any.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. An impairment loss is recognized when there is objective evidence (such as the probability of insolvency or deteriorating credit position of the debtor) 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.

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 are subsequently adjusted based on actual receipts. Expenses related to any adverse adjustments are reported as Office and Administration expenses.

(f) Prepaid expenses and other

Prepaid expenses represent vendor pre-payments for insurance, deposits, supplies, and other operating expenditures. They are initially recorded as assets on the statement of financial position but expensed over time as the benefit is received into profit or loss.

(g) Capital assets

Capital assets are recognized initially at cost, and are reported less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including those directly attributable to bringing the asset to its intended working condition. Where relatively significant parts of a capital asset have different useful lives, they are accounted for and amortized 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 other income 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:

Asset	Estimated useful lives
Computer equipment	3 to 5 years
Furniture and fixtures	8 years
Leasehold improvements	Over the term of the lease

During the period, 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.

(h) Intangible assets

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

Intangible assets acquired separately are measured at cost less accumulated amortization and impairment losses. Intangible assets acquired through a business combination are initially recognized at fair value based on an allocation of the purchase price.

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

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- The Company is able to use or sell the software;
- Future benefits associated with the software can be demonstrated;
- Adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and
- The expenditures attributable to the software during its development can be reliably measured.

Eligible expenditures capitalized as part of proprietary software developed for internal use include external direct costs of materials and services consumed in development, and payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent that their time was spent directly on the project). All costs incurred in the preliminary research stage of the projects are expensed as incurred.

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

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

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

Intangible assets with an indefinite useful life are not amortized, but are tested for impairment. Trade names have been determined to have an indefinite life based on it's strength, history, and expected future use.

(i) 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 or equity method investee at the date of acquisition. Goodwill is not amortized and is subject to an annual impairment test, and is carried at cost less accumulated impairment losses.

(j) 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 for impairment, by estimating its recoverable amount 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 the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. An asset that does not generate separate cash flows is a corporate asset. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs.

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.

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 loss been recorded.

(k) Trade and other payables

Trade payables include obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less and are recognized initially at fair value and subsequently measured at amortized cost.

Other payables include accruals for salaries and compensation, and other obligations incidental to the Company's normal business operations. They are classified as current when it is expected to be settled within one year of the reporting period date, and are recognized initially at fair value and subsequently measured at amortized cost.

(l) Other liabilities

Other liabilities represent present obligations that have arisen from past events, for which a future outflow of the Company's resources are expected upon settlement. Other liabilities have been initially measured at its discounted present value and subsequently measured at amortized cost.

(m) Provisions

Provisions are recognized when the Company has a present obligation towards 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.
The Company has recognized sublease loss provisions associated with the lease of excess office spaces, 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 cost. The estimate of the contingency reserve corresponds to the expenditure likely to be incurred by the Company to settle its obligation.

(n) 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 income as services are rendered, in accordance with the revenue recognition policies described above.

(o) 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. As the Company is acting in its capacity as consultants to collect and remit premiums from insurers to insurance underwriters, the Company is considered to have a legal right to offset. As such, the cash and investment balances relating to these liabilities have been offset against the related liability in the Company's consolidated statement of financial position.

(p) Employee future benefits

The Company 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 may be 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.

Defined benefit plan

The liability recognized in the statement of financial position in respect of defined benefit pension plans 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 to the terms of the related pension obligation.

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 less than 65 employees as at March 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 15 for further discussion.

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.

(q) Share-based compensation plan ("LTIP")

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.

(r) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax 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 tax is 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 tax is 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 tax is 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.

Deferred tax is 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.

(s) 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.

Financial assets and liabilities are offset and the net amount presented in the statement 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

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss comprise of cash and 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.

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.

(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 overdraft, 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(t) below).

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:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

(iii) 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.

(t) 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 engage 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 risks 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 are 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.

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 forecast 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.

(u) 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.

(v) Business combinations

Acquisitions on or after January 1, 2010

Acquisitions of subsidiaries and businesses on, or after, January 1, 2010 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 either through profit or loss or through other comprehensive income 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.

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.

Acquisitions prior to January 1, 2010

As part of its transition to IFRSs, the Company elected not to restate those business combinations that occurred prior to January 1, 2010 (see note 15). In respect of these acquisitions, goodwill represents the amount recognized under previous Canadian GAAP.

(w) Future accounting changes

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to 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, 2013 but is available for early adoption. The Company has not early adopted IFRS 9 for the period ended March 31, 2011, and the extent of the impact has not been determined.

IFRS 7, Financial Instruments – disclosure

An amendment to IFRS 7 issued in October 2010 will enhance disclosure requirements relating to the transfer of financial assets. This will include disclosures for transfers of financial assets that are derecognized in their entirety as well as those that are not. The effective date for the amendment will be for annual periods beginning on or after July 1, 2011. Although earlier application is permitted (subject to disclosure of that fact), the Company has not chosen to early adopt the amendment for the period ended March 31, 2011, and the extent of the impact has not been determined.

4. BUSINESS ACQUISITIONS

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 wholly-owned by its principals specializing in actuarial and broader pension consulting solutions. The purchase price is contingent on business results and is expected to be 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 annual rates of 3.27%, was paid during the 2010 fiscal year. The third and final instalment, is subject to revenue adjustments plus interest calculated at annual rates of 3.87%, and will be settled during the second quarter of 2011. There have been no changes to the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

The Company agreed to pay additional consideration in the acquisition of Leong & Associates contingent on their financial performance. The contingent consideration, dependant upon revenue, was determined to be $4,672, of which $3,772 was adjusted into the cost of the combination in accordance with IFRS 1 (note 15), and the remaining $900 during 2010.

5. INTANGIBLE ASSETS

The Company's intangible assets are comprised of:

	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
Additions:							
Internally-developed	-	-	-	-	2,912	-	2,912
Purchased	-	-	400	-	-	2,168	2,568
Impairment loss	-	-	-	(5,000)	-	-	(5,000)
Balance, December 31, 2010	$ 70,000	$ 199,557	$ 27,900	$ 41,000	$ 6,081	$ 5,111	$ 349,649
Additions:							
Internally-developed	-	-	-	-	816	-	816
Purchased	-	-	-	-	-	310	310
Balance, March 31, 2011	**$ 70,000**	**$ 199,557**	**$ 27,900**	**$ 41,000**	**$ 6,897**	**$ 5,421**	**$ 350,775**

	Indefinite Useful Life	*Finite Useful Life*					
	Trade Names	**Customer Relationships**	**Customer Contracts**	**Proprietary Software**	**Internally-developed Software**	**Purchased Software**	**Total**
Accumulated Amortization:							
Balance, January 1, 2010	$ -	$ 32,057	$ 26,125	$ 35,900	$ -	$ 1,428	$ 95,510
Amortization	-	11,806	1,597	7,200	200	1,269	22,072
Impairment loss	-	-	-	(2,583)	-	-	(2,583)
Balance, December 31, 2010	$ -	$ 43,863	$ 27,722	$ 40,517	$ 200	$ 2,697	$ 114,999
Amortization	-	2,952	67	50	170	139	3,378
Balance, March 31, 2011	**$ -**	**$ 46,815**	**$ 27,789**	**$ 40,567**	**$ 370**	**$ 2,836**	**$ 118,377**
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	$ 483	$ 5,881	$ 2,414	$ 234,650
March 31, 2011	**$ 70,000**	**$ 152,742**	**$ 111**	**$ 433**	**$ 6,527**	**$ 2,585**	**$ 232,398**

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 or loss.

Amortization on internally-developed software does not commence until the asset is ready for use as management intended. As at March 31, 2011, $886 (December 31, 2010 - $332, January 1, 2010 - $3,169) of internally-developed software remained under development and had not been put into use.

During the period, no impairment indicators related to the Company's intangible assets with finite useful lives were noted and therefore, an impairment test was not performed. The Company considered indicators such as a decline in market value of the Company, significant adverse changes in corporate strategy, technology, markets, and economy, changes in market interest rates, changes in carrying value compared to market capitalization, evidence of asset obsolescence, and worst than expected economic performance.

During the fourth quarter of 2010, as a result of the development of a new software platform, the Company recognized an impairment loss of $2,417 on certain proprietary software acquired in the Shepell.fgi acquisition that had a cost of $5,000 and accumulated amortization of $2,583 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*, that it has seven CGUs, comprising of the Outsourcing, EAP, and Health Management lines of businesses, and the four regions within Pension and Benefits consulting: East, Ontario, West, and Quebec.

For the purposes of impairment testing, the Company's trade name has been treated as a corporate asset and recoverable amount determined on an aggregate basis, since it contributes to the future cash flows of both EAP and Health Management, and does not generate cash flows independently of other assets. An impairment test for impairment of trade name was last performed for the year ended December 31, 2010 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 loss was recorded.

6. GOODWILL

The Company's goodwill is comprised of the following:

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Acquired through business acquisitions	$ 300,792	$ 300,792	$ 300,792
Less: Accumulated impairment loss	-	-	-
Total Goodwill	**$ 300,792**	**$ 300,792**	**$ 300,792**

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 IAS 36. The aggregate carrying amount of goodwill has been allocated to each as follows:

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Pension and Benefits	$ 113,536	$ 113,536	$ 113,536
Outsourcing	61,628	61,628	61,628
EAP	114,878	114,878	114,878
Health management	10,750	10,750	10,750
Total Goodwill	**$ 300,792**	**$ 300,792**	**$ 300,792**

Goodwill impairment is assessed on an annual basis or whenever there is an indication that the asset may be impaired, and therefore, was not tested as at March 31, 2011. The valuation techniques, significant assumptions and sensitivities applied in the goodwill impairment test as at the comparative periods December 31, 2010 and January 1, 2010 are described below.

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.

Growth

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.

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 key assumptions used in performing the impairment test, by CGU or segment, were as follows:

	Perpetuity Growth Rate	Discount Rate
Pensions and Benefits	3.0%	9.4%
Outsourcing	3.0%	9.4%
EAP	3.0%	9.4%
Health Management	3.0%	12.1%
EAP and Health Management (business segment – for the purposes of trade name impairment testing)	3.0%	9.6%

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

7. LONG TERM DEBT

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

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Non-revolving term loans	$ 130,000	$ 160,000	$ 160,000
Revolving loans	68,000	35,500	11,500
	198,000	195,500	171,500
Less: current portion of long-term debt	(11,500)	(11,500)	(11,500)
Less: debt issue costs, net of accumulated amortization	(1,728)	(645)	(1,113)
	$ 184,772	$ 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 terms of the amended and restated credit agreement remain similar to those contained in the previous agreement, with the exception of a change in 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.

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.

EBITDA is defined as net income before interest expense, 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 March 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 bear interest at 2.48% plus an applicable margin of 2.625%.
- $68,000 of $100,000 revolving loans. The revolving loan consists of an $8,000 prime loan and a $60,000 bankers acceptance ("BA") loan. The prime loan bears interest at prime rate plus an applicable margin of 2.625% and the BA loan is renewed on a monthly basis, bearing interest at the one-month BA rate plus an applicable margin.

- $1,939 of the $7,000 swing line available. The swing line carries interest at prime plus an applicable margin.

The Company complied with all the required financial covenants and the ratios as at March 31, 2011 were 3.0 and 5.7 respectively.

Cash flow hedges

The Company enters into interest-rate swap agreements to hedge against the variable interest rate component of 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% (before the applicable margin), respectively. As a result of this transaction, the Company incurred a termination expenditure of $4,150. Since these interest-rate swap agreements were previously designated as cash flow hedges against the term loans outstanding, the designated hedging items from the cash flow hedge relationships were eliminated.

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 interest expense. The remaining $3,303 will be amortized into profit or loss as interest expense concurrently with the variable interest payments on the term loan remaining, until June 1, 2012, the maturity date of the original credit facility.

Pursuant to 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 March 31, 2011 was $289.

Finance costs

The Company's finance costs were comprised of the following:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Interest on term loan	$ 1,694	$ 2,148
Interest on revolving loan, bank indebtedness, and other charges	565	67
Amortization of debt issuance costs	117	117
Interest and amortization on terminated interest-rate swap	1,361	-
Ineffective portion on interest-rate swap cash flow hedge	69	130
Other	75	180
Total Finance Costs	**$ 3,881**	**$ 2,642**

8. INCOME TAXES

Prior to the Reorganization, the Fund was as a mutual fund trust for income tax purposes and was able to deduct distributions to unitholders in the year from its taxable income for that year.

Prior to the Reorganization, the Fund was also a specified investment flow-through trust for tax purposes and would be subject to tax on distributions of certain income to unitholders after December 31, 2010. Accordingly, the Fund provided for deferred taxes on temporary differences expected to reverse after that date.

9. SHARE CAPITAL

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.

Preferred shares

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

Dividends

Dividends are declared in Canadian dollars. The quarterly dividend rate decreased from $0.236 in 2010 (representing those declared on Units) to $0.195 in 2011, as a result of legislative changes enacted by the Federal government that resulted in the Company's reorganization from an income trust structure (note 1).

The change in Share Capital, including Contributed Surplus was as follows:

	Number of Fund Units	Number of Common Shares	Stated Capital	Contributed Surplus	Total Capital
Balance, January 1, 2010	42,280,489	-	$ 415,626	$ -	$ 415,626
Exchange of LP Units for Fund Units	272,132	-	2,713	-	2,713
Settlement of LTIP awards through treasury	-	-	169	-	169
Shares issued under LTIP	196,594	-	1,601	-	1,601
Balance December 31, 2010	42,749,215	-	$ 420,109	$ -	$ 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	-	53,729
LTIP – reclassification as equity-based awards (note 15)	-	-	-	6,031	6,031
Balance, March 31, 2011	**-**	**47,940,409**	**$ 473,838**	**$ 6,031**	**$ 479,869**

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:

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

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

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*, 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.

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, Share-based Payment*, and therefore, the balance payable to LTIP unit holders was reclassified to Contributed Surplus.

10. PAYABLE TO LP UNITHOLDERS ON INVESTMENT

This balance represents LP Units reclassified as financial liabilities, pursuant to their assessment against IAS 32, *Financial Instruments – Disclosure*, as discussed per note 9. The amount payable can be broken down as follows:

	Units Issued	Amount
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 on Reorganization (note 1)	(5,191,194)	(53,729)
Balance, March 31, 2011	**-**	**$ -**

On January 1, 2011, pursuant to the Reorganization (note 1), all Units 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 the end of March 31, 2011.

11. EARNINGS PER SHARE

Basic earnings per share was calculated by dividing profit attributable to common shares by the sum of the weighted average number of common shares outstanding during the period, plus vested LTIP awards.

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 LTIP awards.

The following details the earnings per share, basic and diluted, calculations for the three months ended March 31, 2011:

Profit attributable to common shares *(in thousands of dollars)*	**Three months ended March 31, 2011**
Profit attributable to common shares (basic and diluted)	$ 6,458
Weighted average number of common shares *(in actual number of shares)*	
Weighted average of opening number of shares	47,940,409
Add: Vested LTIP awards	185,764
Weighted average number of common shares (basic)	48,126,173
Add: Dilutive effect of unvested LTIP awards	356,418
Weighted average number of common shares (diluted)	48,482,591
Earnings per share (basic)	**$ 0.13**
Earnings per share (diluted)	**$ 0.13**

As described per note 15, except for financial statement presentation purposes, all Fund and LP Units were classified as financial liabilities under IFRS; as a result, earnings per share has not been presented for the comparative 2010 period.

12. 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 March 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.

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Revenue:		
Canada	$ 81,642	$ 76,514
United States	3,760	4,911
Consolidated Total	**$ 85,402**	**$ 81,425**

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Total Assets:			
Canada	$ 633,215	$ 627,950	$ 642,078
United States	7,150	7,959	6,850
Consolidated Total	**$ 640,365**	**$ 635,909**	**$ 648,928**

13. SUPPLEMENTARY CASH FLOW INFORMATION

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Trade and other receivables	$ (2,436)	$ (2,323)
Unbilled fees	(1,047)	649
Prepaid expense and other	(1,778)	(121)
Deferred implementation costs	(1,356)	(1,267)
Trade and other payables	1,280	(3,382)
Deferred revenue	711	971
	$ (4,626)	**$ (5,473)**

14. COMMITMENTS

The Company has lease commitments for office premises and equipment with options for renewal. As at March 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
2011 (remainder)	$ 7,431	$ (1,780)	$ 5,651
2012	8,818	(2,157)	6,661
2013	8,601	(2,098)	6,503
2014	8,536	(2,098)	6,438
2015	8,160	(2,098)	6,062
Thereafter	53,179	(10,595)	42,584
Total	**$ 94,725**	**$ (20,826)**	**$ 73,899**

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 for the guarantee.

15. TRANSITION TO IFRS

These unaudited condensed interim consolidated financial statements represent the Company's first consolidated interim financial statements prepared in accordance with IAS 34, as issued by the IASB. The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as at January 1, 2010 ("Transition Date").

The accounting policies set out in note 3 have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010 and the year ended December 31, 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.

Application of IFRS 1, *First-time Adoption of International Financial Reporting Standards*

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 at January 1, 2010 ("Transition Date"):

(a) Business Combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, 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, and the Company has recognized into opening deficit contingent consideration of $3,772 related to the Leong & Associates acquisition.

(b) Employee Benefits

IFRS 1 provides the option not to retrospectively apply IAS 19, *Employee Benefits*, 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 can only be applied prospectively from the Transition Date on transactions that satisfy the hedge accounting criteria detailed per IAS 39, *Financial Instruments: Recognition and Measurement*. Hedging relationships cannot be designated retrospectively nor the related supporting documentation be created retrospectively. 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.

(e) Consolidated and Separate Financial Statements

IFRS 1 provides that where IFRS 3 Business Combinations is applied retrospectively, IAS 27, *Consolidated and Separate Financial Statements* must also be applied retrospectively. IAS 27 requires allocation of total comprehensive income to the shareholders and the non-controlling interests of the Company on a pro-rate basis. As the Company has elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively and therefore, there is no financial impact at the Transition Date. IAS 27, however, will result in the reclassification of non-controlling interest per the Statement of Financial Position as an equity item from liabilities.

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.

(f) 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. The IFRS adjustments below therefore relate only to those acquisitions occurring after January 1, 2010.

Canadian GAAP - Shares issued as consideration are measured at their market price a few days before and after the date the parties reached an agreement on the purchase price and the proposed transaction is announced.

If certain conditions are met, acquisition-related costs, which include the costs of the plan (1) to exit an activity of an acquired company, (2) to involuntarily terminate employees of an acquired company, or (3) to relocate employees of an acquired company, as well those professional costs (legal, tax advisory and third party valuation fees) related this the transaction, are liabilities assumed in the purchase price and are included in the allocation of the acquisition cost.

Initial purchase price allocations are subsequently adjusted through goodwill prospectively as estimates change. Contingent consideration to be paid is included in the purchase price only if the amount can be reasonability estimated and obligation to pay this amount is reasonably assured. Further, while Canadian GAAP does not impose a time limit for the completion of the allocation process, in practice the procedure is considered final within twelve months in which the acquisition occurred.

IFRS – Shares issued as consideration are measured at their market value as at the date of acquisition.

Restructuring provisions are only recognized as liabilities assumed in the purchase price when the acquiree has recognized an existing liability for restructuring in accordance with applicable IFRS standards. Acquisition-related costs would therefore be excluded from the purchase equation and will be charged to earnings 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 to the amount paid in actual will be recognized through comprehensive income or through profit or loss, depending on its classification as equity or liability.

Where the initial accounting for a business combination can only be determined provisionally, subsequent adjustments to the purchase price allocation may be recognized if they occur within 12 months of the acquisition date. Once the 12 month period elapses, adjustments are recognized through profit or loss. The adjustments made as a result of finalizing the provisional accounting are retrospectively recognized from the acquisition date. Adjustments to depreciation and amortization are therefore retrospectively recorded to reflect the final purchase accounting.

Impact – No impact on the Company's financial position to date, as the Company did not engage in any business acquisitions subsequent to transition to IFRS. An additional $900, however, was recognized during the year ended December 31, 2010, representing the additional contingent consideration that could reasonably estimated related to the final instalment payable on the Leong & Associates acquisition.

(g) Employee Future Benefits

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

Canadian GAAP and IFRS – Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. This excess of 10% is amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% threshold are deferred.

The measurement date of the defined benefit obligation and plan assets is the end of the period.

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.

When a defined benefit plan gives rise to an accrued benefit asset, a valuation allowance is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the statement of financial position net of the valuation allowance. A change in the valuation allowance is recognized in earnings for the period in which the change occurs.
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IFRS limits the recognition of the net benefit asset under certain circumstances to the amount that is recoverable.

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

(h) 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.

Canadian GAAP - Canadian GAAP refers to the unit or basis of measurement for the translation of assets, liabilities, revenues, and expenses. The method of translation of the foreign operation is dependent on its classification as a self-sustaining or integrated foreign operation. This determination is made based on a professional judgment evaluation of the economic facts and circumstances specific to that foreign operation. If considered an integrated operation, the functional currency of the foreign operation is the same as the parent company, the temporal method of translation is used, and any gains or losses on translation are recognized through profit or loss. If considered a self-sustaining operation, the functional currency differs from the parent, the current method of translation is used, and any gains or losses on translation are recognized as a separate component of other comprehensive income, except in the case of impairment.

IFRS – IFRS refers to functional currency of the foreign operation, which should reflect the underlying transactions, events, and the economic conditions in which it operates. Primary factors to consider include the currency that mainly influences sales prices (often the currency in which sales prices are denominated and settled), the currency of the country who's competitive forces drive the sales prices, and the currency that mainly influences labour, materials, and other costs of providing the goods or services. If it is determined that the functional currency is not the same as the parent, the translation of the foreign operation at each reporting date requires assets and liabilities to be translated at the closing rate as of that date, income and expense items to be translated as at the transaction date, with all gains or losses to be recognized as a separate component of equity. These foreign exchange translation differences are only brought into the profit or loss at the point where the foreign operation is disposed of.

Impact – Since 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, the foreign currency translation gains and losses in re-translating to the Company's functional currency, the Canadian dollar, were required to be recognized separately into other comprehensive income. Deficit for the three months ended March 31, 2010 and year ended December 31, 2010 was reduced by $191 and $207, respectively as a result of this change; other comprehensive loss was increased by a corresponding amount in both periods described.

(i) Impairment of Assets

Canadian GAAP – Where circumstances or events arise that indicate a potential impairment of the asset, the asset's undiscounted cash flows are determined and compared to the asset's carrying value. Where the carrying value exceeds the undiscounted cash flows, the asset is impaired by an amount equal to the difference between the two and is recognized through profit and loss in the period it is identified. Impairment losses cannot be reversed in future periods.

IFRS - Impairment is 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. The impairment loss is determined by comparing the asset's carrying value directly to its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. In determining value in use, cash flows are discounted to their net present value. Where the carrying value exceeds the recoverable amount, impairment exists. The impairment is first applied against goodwill, and then prorated to the other assets in the CGU. Impairment losses can be reversed in subsequent periods if there is a change in estimates that resulted in the initial impairment loss.

Impact – 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.

(j) Income Taxes

Canadian GAAP – Canadian GAAP refers to deferred income tax assets and/or deferred income tax liabilities being recognized.

Deferred income taxes are generally recognized for all temporary differences, except for temporary differences arising from any portion of goodwill that is not deductible for tax purposes.

Deferred taxes are recognized on initial recognition for intangible assets acquired from business combinations that are share purchases. For intangible assets acquired from business combinations that are asset purchases, Canadian GAAP effectively permits the non-recognition of deferred tax on initial recognition in certain circumstances.

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.

Deferred income tax assets and liabilities are recognized to the extent that it is “more likely than not” that it will be realized.

Deferred tax assets and liabilities are measured using the income tax rates and income tax laws that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized, which would normally be those enacted or substantively enacted at the date of the statement of financial position.

Current taxes and liabilities are offset only when there is a legally enforceable right of offset.

Deferred income tax assets and liabilities are classified as current or non-current as appropriate. Classification as current or non-current is based on the classification of the underlying assets and liabilities to which they relate or, if there is no underlying recognized asset or liability, based on the expected timing of the reversal of the temporary difference.

IFRS – IAS 12 refers to deferred tax assets and/or deferred tax liabilities being recognized.

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).

Deferred taxes are recognized on initial recognition for intangible assets acquired from business combinations that are share purchases or asset purchases.

Income tax assets and liabilities are 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.

Current tax assets and liabilities are offset only when there is a legally enforceable right of offset, the tax relates to the same taxation authority and there is the intention to settle on a net basis or simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets arising from share issuance costs are recognized through equity in the period in which they are realized.

All deferred tax assets and liabilities must be classified as non-current.

Impact – The transition to IFRS resulted in an increase to deferred tax liabilities primarily due to the Reorganization (note 1), related to the re-measurement of temporary differences on certain intangible assets that was not required under 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 Income Taxes (Liability)	Share Capital	Deficit	Other Comprehensive Income
January 1, 2010	$ 7,153	$ (41)	$ (7,432)	$ 319
December 31, 2010	(1,242)	-	820	422
March 31, 2010	(217)	-	251	(34)

(k) 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.

Canadian GAAP – If certain conditions are met, the "short cut method" and the "critical terms match" method can be used to assess and measure the ineffectiveness portion of a hedging relationship.

IFRS - IFRS does not permit the use of the short cut method or the critical terms match method to assess and measure ineffectiveness of a hedging relationship. Ineffectiveness must be measured at each reporting period throughout the life of the hedging relationship.

Impact – The ineffective portion of the cash flow hedge for the three months ended March 31, 2010 and year ended December 31, 2010 resulted in an increase in deficit of $130 and $69, and a corresponding change, net of tax effect, of $96 and $51 in other comprehensive income, respectively.

(l) Provisions, Contingent Liabilities, and Contingent Assets

Canadian GAAP – Provisions are recognized only when future cash outflow is likely (i.e. the chance of occurrence is high), and the amount can be reasonably estimated.

IFRS – 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.

Impact – The lower provisional threshold did not result in any material change to the Company's financial position at March 31, 2010 or December 31, 2010.

(m) Financial Instruments – Presentation

Canadian GAAP – Fund Units classified as an equity-instrument for financial statement purposes. Similarly, LP Units gave rise to non-controlling interest for the Fund.

IFRS – IFRS requires the classification of Units and LP Units as financial liability instruments given they are redeemable at the option of the holder and there is a mandatory requirement to distribute taxable income under the Declaration of Trust, unless certain criteria is met that would allow for presentation as equity. As described per note 9, the characteristics of Fund Units met the criteria for presentation as equity for financial statement purposes only, but LP Units did not.

Impact – 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 $1,283 and $4,982 for the three months ended March 31, 2010 and year December 31, 2010, respectively were classified as Interest Expense – fair value of LP Units and LTIP awards, increasing deficit and payable to LP unitholders on investment in the same amounts;

- Reversal of non-controlling interest (under GAAP) of $517 and $2,341 for the three months ended March 31, 2010 and December 31, 2010 respectively 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 amounts;

- LP Units fair valued and reported as Interest Expense – fair value of LP Units and LTIP awards as at March 31, 2010 and 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 $3,546 and $2,793 respectively; and

- Classification of Minority Interest (under GAAP) of $44,900 and $41,591 as at March 31, 2010 and December 31, 2010 respectively 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 GAAP) of $4,315 and $5,293 as at March 31, 2010 and December 31, 2010 respectively as a financial liability, payable to LTIP unitholders; and

- LTIP awards fair valued and reported as Interest Expense – fair value of LP Units and LTIP awards as at March 31, 2010 and 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 $277 and $35 respectively.

(n) Share-Based Compensation

Canadian GAAP – Award forfeitures are recognized as incurred.

IFRS – An estimate of the number of award forfeitures is required as at grant date, and is revised based on actual in each subsequent reporting period.

Impact – 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.

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 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 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.

Reconciliation of Consolidated Statement of Financial Position as of January 1, 2010

Canadian GAAP Account Classifications	Note Reference	Canadian GAAP balance	IFRS 1 Adjustment	Effect of transition to IFRS	IFRS Balance	IFRS Account Classification
Assets						
Current						
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
Current portion of deferred implementation costs		167			167	Deferred implementation costs
Total Current Assets		77,831	(95)		77,736	Total Current Assets
Non-Current						
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 Non-Current Assets
Total Assets		**$ 649,023**	**$ (95)**	**$ -**	**$ 648,928**	**Total Assets**
Liabilities						
Current						
Accounts payable and accrued liabilities	(b)	38,796	274		39,070	Trade and other payables
Deferred revenues		1,795			1,795	Deferred revenues
Current portion of long-term debt		11,500			11,500	Current portion of long-term debt
Current portion of 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 and interest payable to LP unitholders
Total Current Liabilities		62,613	274	-	62,887	Total Current Liabilities
Insurance premium liabilities						
Payable to insurance companies		9,313			9,313	Payable to insurance companies
Less: related cash and investments held		(9,313)			(9,313)	Less: related cash and investments held
		-			-	
Non-Current						
Long-term debt		158,887			158,887	Long-term debt
	(m)			53,649	53,649	Payable to LP Unit holders 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
	(m)		-	3,956	3,956	Payable to LTIP Unitholders
				3,336	3,336	Provisions
Future Income Taxes	(j)	12,179	7,153		19,332	Deferred income taxes
Total Non-Current Liabilities		187,928	10,925	57,605	256,458	Total Non-Current Liabilities
Total Liabilities		**250,541**	**11,199**	**57,605**	**319,345**	**Total Liabilities**
Minority Interest	(e)	46,137	(46,137)		-	
Equity						
Unitholders' Capital	(j)	415,667	(41)		415,626	Share capital
Contributed Surplus	(m)	3,835		(3,835)	-	Contributed Surplus
Accumulated Other Comprehensive Income/(Loss)	(c), (j)	(5,945)	553		(5,392)	Accumulated Other Comprehensive Income/(Loss)
Deficit	(a), (b), (c), (j)	(61,212)	(11,806)	(7,633)	(80,651)	Deficit
Total Unitholder Capital		352,345	(11,294)	(11,468)	329,583	Shareholders' Equity
	(e), (m)	-	46,137	(46,137)	-	Non-Controlling Interest (Equity)
Total Equity		**352,345**	**34,843**	**(57,605)**	**329,583**	**Shareholders' Equity**
Total Liabilities and Equity		**$ 649,023**	**$ (95)**	**$ -**	**$ 648,928**	**Total Liabilities and Shareholders' Equity**

Reconciliation of Consolidated Statement of Financial Position as of March 31, 2010

Canadian GAAP Account Classifications	Note Reference	Canadian GAAP balance	IFRS 1 Adjustment	Effect of transition to IFRS	IFRS Balance	IFRS Account Classification
Assets						
Current Assets						
Accounts receivable		57,385			57,385	Trade and other receivables
Unbilled fees		16,877			16,877	Unbilled fees
Income taxes recoverable		209			209	Income taxes recoverable
Prepaid expenses and other	(b)	3,419	(95)	-	3,324	Prepaid expenses and other
Current portion of deferred implementation costs		421			421	Current portion of deferred implementation costs
Total Current Assets		78,311	(95)	-	78,216	Total Current Assets
Non-Current						
Foreign exchange contracts		497			497	Foreign exchange contracts
Deferred implementation costs		1,943			1,943	Deferred implementation costs
Capital Assets		15,046			15,046	Capital Assets
Intangible Assets		248,091			248,091	Intangible Assets
Goodwill		300,792			300,792	Goodwill
Total Non-Current Assets		566,369	-	-	566,369	Total Non-Current Assets
Total Assets		**$ 644,680**	**$ (95)**	**$ -**	**$ 644,585**	
Liabilities						
Current						
Bank Indebtedness		4,368			4,368	Bank indebtedness
Accounts payable and accrued liabilities	(b)	35,421	274	(31)	35,664	Trade and other payables
		115			115	Income taxes payable
Deferred revenues		2,766			2,766	Deferred revenues
Current portion of promissory note		4,402			4,402	Current portion of promissory note
Unitholder distributions payable (including non-controlling)		3,759			3,759	Dividends payable and interest payable to LP unitholders
Future consideration related to acquisition	(a)	-	3,772		3,772	Future consideration related to acquisition
Current portion of long-term debt		15,000			15,000	Current portion of long-term debt
Total Current Liabilities		65,831	4,046	(31)	69,846	Total Current Liabilities
Insurance premium liabilities						
Payable to insurance companies		8,747			8,747	Payable to insurance companies
Less: related cash and investments held		(8,747)			(8,747)	Less: related cash and investments held
		-			-	
Non-Current						
Long-term debt		159,004			159,004	Long-term debt
	(m)			56,312	56,312	Payable to LP Unitholders on investment
Interest-rate swaps		5,646			5,646	Interest-rate swaps
Other Liabilities		9,975		(3,217)	6,758	Other liabilities
		-		3,217	3,217	Provisions
	(m)			4,713	4,713	Payable to LTIP unitholders
Future Income Taxes	(j)	10,830	7,153	(208)	17,775	Deferred income taxes
Total Non-Current Liabilities		185,455	7,153	60,817	253,425	Total Non-Current Liabilities
Total Liabilities		**251,286**	**11,199**	**60,786**	**323,271**	**Total Liabilities**
Minority Interest	(m)	44,900	-	(44,900)	-	
Equity						
Unitholders' Capital	(j), (m)	416,308	(41)	412	416,679	Share capital
Contributed Surplus	(m)	4,315		(4,315)	-	Contributed Surplus
Accumulated Other Comprehensive Income/(Loss)	(c), (j)	(4,953)	553	(104)	(4,504)	Accumulated Other Comprehensive Income/(Loss)
Deficit	(a), (b), (h), (j), (k), (m)	(67,176)	(11,806)	(11,879)	(90,861)	Deficit
Total Unitholders Capital		348,494	(11,294)	(15,886)	321,314	Total Shareholders' Equity
Total Liabilities and Equity		**$ 644,680**	**$ (95)**	**$ -**	**$ 644,585**	

Reconciliation of Consolidated Statement of Financial Position as of December 31, 2010

Canadian GAAP Account Classifications	Note Reference	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)	1,896	(95)	(13)	1,788	Prepaid expenses and other
Current portion of deferred implementation costs		659			659	Current portion of deferred implementation costs
Total Current Assets		80,660	(95)	(13)	80,552	Total Current Assets
Non-Current						
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 Non-Current Assets
Total Assets		**$ 636,017**	**$ (95)**	**$ (13)**	**$ 635,909**	
Liabilities						
Current						
Accounts payable and accrued liabilities	(b)	39,852	274	(103)	40,023	Trade and other payables
		453			453	Income taxes payable
Deferred revenues		1,584			1,584	Deferred revenues
Future consideration related to acquisition	(a), (f)	-	3,772	900	4,672	Future consideration related to acquisition
Current portion of long-term debt		11,500			11,500	Current portion of long-term debt
Total Current Liabilities		53,389	4,046	797	58,232	Total Current Liabilities
Insurance premium liabilities						
Payable to insurance companies		13,946			13,946	Payable to insurance companies
Less: related cash and investments held		(13,946)			(13,946)	Less: related cash and investments held
		-			-	
Non-Current						
Long-term debt		183,355			183,355	Long-term debt
	(m)			53,729	53,729	Payable to LP Unit holders on investment
Interest-rate swaps		4,424			4,424	Interest-rate swaps
Other Liabilities		8,575		(1,890)	6,685	Other liabilities
		-		1,890	1,890	Provisions
	(m)			5,449	5,449	Payable to LTIP unit holders
Future Income Taxes	(j)	5,909	7,153	(1,242)	11,820	Deferred income taxes
Total Non-Current Liabilities		202,263	7,153	57,936	267,352	Total Non-Current Liabilities
Total Liabilities		**255,652**	**11,199**	**58,733**	**325,584**	**Total Liabilities**
Minority Interest	(m)	41,591		(41,591)	-	
Equity						
Unitholders' Capital	(j), (m)	419,342	(41)	808	420,109	Share capital
Contributed Surplus	(m)	5,293		(5,293)	-	Contributed Surplus
Accumulated Other Comprehensive Income/(Loss)	(c), (j)	(3,192)	553	284	(2,355)	Accumulated Other Comprehensive Income/(Loss)
Deficit	(a), (b), (f), (h), (j), (k), (m)	(82,669)	(11,806)	(12,954)	(107,429)	Deficit
Total Unitholders Capital		338,774	(11,294)	(17,155)	310,325	Total Shareholders' Equity
Total Liabilities and Equity		**$ 636,017**	**$ (95)**	**$ (13)**	**$ 635,909**	

Reconciliation of Consolidated Income and Comprehensive Income for the three months ended March 31, 2010

Canadian GAAP Account Classifications	Note Reference	Canadian GAAP balance	Effect of transition to IFRS	IFRS Reclassification	IFRS Balance	IFRS Account Classification
Revenue						
Fees		77,177			77,177	Fees
Commissions and other income		4,248			4,248	Commissions and other income
Total Revenue		**81,425**	**-**	**-**	**81,425**	**Total Operating Revenue**
Expenses						
Salary, benefit, and contractor expenses	(g)	53,708	(31)		53,677	Salary, benefit, and contractor expenses
Other operating expenses	(h)	13,869	(191)	(13,678)	-	Other operating expenses
Amortization of capital assets		991		6,887	7,878	Depreciation, amortization, and impairment losses
Amortization of intangible assets		6,887		(6,887)	-	
				4,199	4,199	Rent and occupancy
				9,479	9,479	Office and administration
		75,455	(222)	-	75,233	
		5,970	**222**	**-**	**6,192**	**Profit before finance costs and interest expense**
Interest expense	(k)	2,512	130		2,642	Finance Costs
	(m)		5,106		5,106	Interest Expense related to LP Units and LTIP awards
Income before income taxes and non-controlling interest		**3,458**	**(5,014)**	**-**	**(1,556)**	**Profit (Loss) from Operations Before Income Taxes**
Income taxes (recovery)						Income taxes (recovery)
Current		231			231	Current
Future	(j)	(1,366)	(251)		(1,617)	Deferred
		(1,135)	(251)	-	(1,386)	
Income before non-controlling interest		**4,593**	**(4,763)**	**-**	**(170)**	
Non-controlling interest	(m)	517		(517)	-	
Net Income		**4,076**	**(4,763)**	**517**	**(170)**	**Profit for the period**
Other comprehensive income						
Unrealized gain on interest rate swap hedges, net of tax effect	(j)	992	(9)		983	Net change in interest rate cash flow hedges
	(j), (k)		96		96	Ineffective portion of changes in fair value of interest rate cash flow hedges transferred to income
	(h)		(191)		(191)	Foreign currency translation differences for foreign operations
Comprehensive Income for the period		**$ 5,068**	**$ (4,867)**	**$ 517**	**$ 718**	**Comprehensive Income for the period**

Reconciliation of Consolidated Income and Comprehensive Income for the year ended December 31, 2010

Canadian GAAP Account Classifications		Canadian GAAP balance	Effect of transition to IFRS	IFRS Reclassification	IFRS Balance	IFRS Account Classification
Revenue						
Fees		314,177			314,177	Fees
Commissions and other income		21,017			21,017	Commissions and other income
Total Revenue		335,194	-	-	335,194	**Total Operating Revenue**
Expenses						
Salary, benefit, and contractor expenses	(g)	221,325	(90)		221,235	Salary, benefit, and contractor expenses
Other operating expenses		60,330	-	(60,330)	-	Other operating expenses
Amortization of capital assets		4,645		22,073	26,718	Depreciation, amortization, and impairment losses
Amortization of intangible assets		22,073		(22,073)	-	
				16,722	16,722	Rent and occupancy
	(h)		(207)	43,608	43,401	Office and administration
		308,373	(297)	-	308,076	
		26,821	**297**	**-**	**27,118**	**Profit before finance costs and interest expense**
Interest expense	(k)	10,461	69		10,530	Finance Costs
	(m)	-	7,810	-	7,810	Interest Expense related to LP Units and LTIP awards
	(f)	-		900	900	Contingent consideration related to business acquisitions
Income before income taxes and non-controlling interest		**16,360**	**(7,582)**	**(900)**	**7,878**	**Profit from Operations Before Income Taxes**
Income taxes (recovery)						Income taxes (recovery)
Current		837			837	Current
Future	(j)	(5,747)	(820)		(6,567)	Deferred
		(4,910)	(820)	-	(5,730)	
Income before non-controlling interest		**21,270**	**(6,762)**	**(900)**	**13,608**	
Non-controlling interest	(m)	2,341	(2,341)	-	-	
Net Income		**18,929**	**(4,421)**	**(900)**	**13,608**	**Profit for the year**
Other comprehensive income						
Unrealized gain on interest rate swap hedges, net of tax effect	(j)	2,753	440		3,193	Net change in interest rate cash flow hedges
	(j), (k)		51		51	Ineffective portion of changes in fair value of interest rate cash flow hedges transferred to income
	(h)		(207)		(207)	Foreign currency translation differences for foreign operations
Comprehensive Income for the year		**$ 21,682**	**$ (4,137)**	**$ (900)**	**$ 16,645**	**Comprehensive Income for the year**

MANAGEMENT'S DISCUSSION AND ANALYSIS

On January 1, 2011, Morneau Sobeco Income Fund (the "Fund") converted from an income fund structure to a corporation named Morneau Shepell Inc. ("Morneau Shepell") pursuant to a plan of arrangement (the "Reorganization"). Morneau Shepell was incorporated pursuant to the laws of the Province of Ontario on October 21, 2010, and as of January 1, 2011, is the successor to the Fund.

Comparative amounts in the MD&A and future MD&A and financial statements are those of the Fund. Morneau Shepell will refer to common shares, shareholders, and dividends, which were formerly referred to as units, unitholders, and distributions under the Fund.

This Management's Discussion and Analysis ("MD&A") covers the three months ended March 31, 2011 and should be read in conjunction with the accompanying unaudited condensed interim Consolidated Financial Statements of Morneau Shepell and notes thereto for the three months ended March 31, 2011, as well as the MD&A, and the Audited Consolidated Financial Statements and notes thereto contained in the Fund's Annual Report for the year ended December 31, 2010.

All financial information is presented in Canadian dollars and in accordance with International Financial Reporting Standards (see "Transition to IFRS" discussion below), unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at www.sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, Adjusted EBITDA, Free Cash Flow, Normalized Free Cash Flow, Payout Ratio and Normalized Payout Ratio. EBITDA is not a calculation based on IFRS and does not have a standardized meaning. It is intended to represent an indication of Morneau Shepell's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before interest expense, capital asset amortization and impairment charges, and income taxes, while Adjusted EBITDA represents EBITDA before taking into account certain non-recurring expenditures. We believe both EBITDA and Adjusted EBITDA are useful measures in evaluating our performance. We utilize them to monitor compliance with debt covenants and to make decisions related to dividends to shareholders rather than net income due to the significant amount of amortization expense related to our intangible assets. We also believe that Free Cash Flow, Normalized Free Cash Flow, Payout Ratio, and Normalized Payout Ratio are useful supplemental measures of performance as they are generally used as indicators of financial performance. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for cash flow from operating activities. Free Cash Flow is defined as cash flow from operating activities, as reported in accordance with IFRS, adjusted for capital expenditures. Normalized Free Cash Flows is Free Cash Flow, adjusted for changes in non-cash operating working capital and certain non-recurring expenditures. Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

FORMATION AND OWNERSHIP STRUCTURE OF MORNEAU SHEPELL

On December 2, 2010, Morneau Sobeco Income Fund (the "Fund") and Morneau Shepell entered into a plan of arrangement ("Reorganization"), whereby the Fund was converted from an income trust structure into the public corporation Morneau Shepell Inc., effective January 1, 2011, pursuant to the laws of the Province of Ontario. The conversion was made in response to the legislative changes enacted by the Federal government that apply a tax at the income trust level on unitholder distributions commencing 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") were exchanged, on a one-for-one basis for common shares of Morneau Shepell Inc. Holders of Units and LP Units, therefore, became the sole shareholders of Morneau Shepell Inc. effective January 1, 2011.

As part of the Reorganization, Morneau Sobeco Group LP was wound up and its assets distributed to Morneau Sobeco GP Inc. ("MS GP") and Morneau Sobeco Trust ("MS Trust") on a pro-rata basis. MS Trust and the Fund were then wound up and their assets ultimately distributed to the Fund. MS GP was amalgamated with Morneau Shepell and other entities of the group. The Reorganization was treated as a change in business form rather than a change in control and accounted for as a continuity of interest; as a result, the carrying amounts of assets, liabilities, and unitholders' equity in the consolidated financial statements of the Fund immediately before the conversion was the same as the carrying values of Morneau Shepell immediately after the conversion. Morneau Shepell's conversion from an income trust structure to a corporation had no impact on its strategic and operational objectives.

As at May 12, 2011, Morneau Shepell had 47,940,409 common shares issued and outstanding.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing human resource consulting and outsourcing services. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With approximately 2,300 employees in offices across North America, we offer services to over 8,000 organizations in Canada, the United States and around the globe directly and through our distribution channel partners.

We derive our revenue primarily from fees charged to clients for consulting engagements, outsourcing engagements, employee assistance program services and workplace health and productivity solutions. Fees from consulting engagements are charged based on billable hours or on a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some benefits consulting assignments which involve the purchase of an insurance policy underwritten by an insurance company, we may be paid commissions (in lieu of fees) by the client's insurance company, which is a common practice in the industry. These commissions are based on a percentage of the premiums paid by the client to the insurance company and our policy is to disclose them to our client. We assume no underwriting risk as the insurance policy is underwritten by the insurance company. In addition, we earn interest income from our cash balances which is included in other revenue.

Fees from outsourcing engagements are generally based on negotiated fees or a formula tied to the nature of the service being provided.

Our outsourcing business is characterized by fixed contracts, which typically have three-year to five-year terms. Most outsourcing contracts contain an upfront implementation fee and an ongoing monthly service fee. Implementations usually take three to twelve months and involve transferring the administration of a client's pension and/or benefits plans onto our systems, tailoring our systems and training our employees. Additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis.

In the billing for Employee Assistance Program ("EAP") services, a portion of the EAP client agreements require payment of a minimum retainer and incremental usage-based fees. The remainder of the EAP agreements are billed based on a actual usage or fixed fees. Most EAP agreements may be terminated by the client upon 30 to 60 days' notice to us, however, it is typical for EAP agreements to continue for multiple years and many automatically renew on an annual basis.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services.

The remaining operating expenses include occupancy costs, technology costs (equipment leases, telecommunications and software), non-recoverable client service costs (such as printing, travel and third-party professional services), training, marketing, office costs, professional services and insurance.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements for periods beginning on January 1, 2011.

Our conversion project plan was comprehensive and addressed matters related to changes in accounting policies and disclosures, information systems and business processes, internal control over financial reporting and disclosure controls and procedures, and training and communication requirements. In transitioning to IFRS, no significant changes to our information technology systems, internal controls over financial reporting and disclosure, or business processes were determined to be required. To facilitate the application of and to develop the required level of expertise, training was provided to key accounting personnel throughout 2010. Changes to accounting policies have been adopted, and applied in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011 represent our first interim financial statements prepared in accordance with IAS 34, *Interim Financial Reporting*. These are Morneau Shepell's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual consolidated financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. Our financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

While the adoption of IFRS did not result in changes to our actual revenue or cash flows, certain changes to the consolidated financial position and results of operations were noted. To allow users to better understand these changes, reconciliations between GAAP and IFRS for total assets, liabilities, shareholders' equity, and profit have been provided in note 15 to our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011. Certain mandatory and optional exemptions and elections available under IFRS 1 for first-time adoption were applied, and have been included in the reconciliations.

SUMMARY AND OUTLOOK

For the three months ended March 31, 2011 revenue growth was $4.0 million, or 4.9% compared to the same period in 2010. EBITDA was $15.6 million, compared to $14.1 million for the same period in 2010. EBITDA margin for the three months ended March 31, 2011 was 18.3%, compared to 17.3% for the same period in 2010. EBITDA per Share (basic) for the three months ended March 31, 2011 was $0.32, compared to $0.30 for the same period in 2010. Profit for the three months ended March 31, 2011 was $6.5 million compared to a loss (after certain IFRS-related adjustments) of $0.2 million for the same period in 2010.

A positive start to 2011 was driven by growth in all parts of the business. The consulting practice primarily grew as a result of increased mandates from existing clients and new regulatory clients. The benefits from the new business relationships secured during the latter part of 2010 drove continued growth in the outsourcing practice and a return to growth in the EAP and health management practices. As we move forward in 2011, we remain confident that these new business relationships, along with new sales and an improving business pipeline, will continue to yield positive results.

DIVIDENDS TO SHAREHOLDERS

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid on about the 15th day of the following month. Monthly dividends were $0.065 per share for the period.

The following table presents excess (shortfall) cash flow from operating activities and profit over dividends to shareholders for the three months ended March 31, 2011 and 2010, and for the years ended December 31, 2010 and 2009.

(In thousands of dollars)	Three months ended March 31, 2011	Three months ended March 31, 2010	Year ended December 31, 2010	Year ended December 31, 2009 [1]
Cash flow from operating activities	$ 9,161	$ 6,295	$ 42,424	$ 48,955
Profit [2]	6,458	4,936	21,418	10,826
Dividends to shareholders [3]	9,348	11,274	45,110	43,902
(Shortfall) Excess of cash flow from operating activities over dividends	(187)	(4,979)	(2,686)	5,053
(Shortfall) of profit over dividends	(2,890)	(6,338)	(23,692)	(33,076)

(1) Morneau Shepell adopted IFRS on January 1, 2011, with a date of transition of January 1, 2010; as such, comparative 2010 figures have been adjusted to conform with IFRS, but comparative 2009 figures presented are as determined in accordance with Canadian GAAP.
(2) The 2010 comparative figures have been adjusted for interest expense related to the change in fair value of LP Units and LTIP awards, to increase comparability with current period results.
(3) The comparative 2010 dividend figure represent distributions paid to holders of Fund Units and LP Units; those paid to LP Units have been classified as interest expense in the 2010 interim consolidated financial statements under IFRS.

We consider the amount of cash generated by the business in determining the amount of dividends payable to shareholders. In general, we do not take into account quarterly working capital fluctuations as these tend to be temporary in nature. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate. The divergence is particularly relevant for us since we have a relatively high level of amortization expense.

Normalized Payout Ratio for the three months ended March 31, 2011 was 88.4% compared to 111.1% for the same period in 2010. On a twelve-month rolling basis ended March 31, 2011, the Normalized Payout Ratio was 95.9% compared to 98.5% for the same period in 2010. The improved Normalized Payout Ratios for the three months ended March 31, 2011 was primarily due to the increase in cash generated from operating activities before non-cash operating working capital and changes in the amount of dividends declared.

ANALYSIS OF 2011 FIRST QUARTER OPERATING RESULTS

Results of Operations
Selected Unaudited Consolidated Financial Information
(In thousands of dollars except per share amounts)

	Three Months Ended March 31	
	2011	2010
Revenue	$ 85,402	$ 81,425
Deduct:		
Salary, benefit and contractor expenses	55,747	53,677
Other operating expenses	14,046	13,678
Finance costs	3,881	2,642
Interest expense related to LP units and LTIP awards	-	5,106
Amortization of capital and intangible assets	5,014	7,878
Income taxes (recovery)	256	(1,386)
Profit for the period	6,458	(170)
Add (deduct):		
Finance costs	3,881	2,642
Interest expense related to LP units and LTIP awards	-	5,106
Amortization of capital and intangible assets	5,014	7,878
Income taxes (recovery)	256	(1,386)
EBITDA[1]	$ 15,609	$ 14,070
EBITDA margin	18.3%	17.3%
Cash from operating activities	$ 9,161	$ 6,295
Deduct: Capital expenditures [2]	3,209	1,624
Free Cash Flow [3]	5,952	4,671
Add/(deduct):		
Changes in Non-cash operating working capital	4,626	5,473
Normalized Free Cash Flow [4]	$ 10,578	$ 10,144
Earnings per Share (basic)	$ 0.13	NA
Earnings per Share (diluted)	$ 0.13	NA
EBITDA per Share (basic) [7]	$ 0.32	$ 0.30
Payout Ratio [5]	157.1%	241.4%
Normalized Payout Ratio [6]	88.4%	111.1%
Twelve-month rolling Payout Ratio	133.8%	117.9%
Twelve-month rolling Normalized Payout Ratio	95.9%	98.5%

Footnotes:

(1) "EBITDA" is defined as profit before interest expense, income taxes (recovery), depreciation, amortization and impairment losses.

(2) "Capital Expenditures" excludes additions to intangible assets acquired through business acquisition, and is presented net of disposals.

(3) "Free Cash Flow" is defined as cash from operating activities adjusted for capital expenditures.

(4) "Normalized Free Cash Flow" is defined as cash from operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, and non-recurring expenditures.

(5) "Payout Ratio" is defined as dividends declared divided by Free Cash Flow.

(6) "Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow.

(7) "Per Share (basic)" calculation for the comparative 2010 period has been calculated assuming Fund and LP Units as capital, and as a result, was based on the weighted average number of Fund Units outstanding during the period.

ANALYSIS OF 2011 FIRST QUARTER RESULTS

Revenue

Revenue for the three months ended March 31, 2011 increased by $4.0 million, or 4.9%, to $85.4 million compared to $81.4 million for the same period in 2010. This increase was primarily driven by growth in the consulting practice, resulting from new business from regulatory clients and increased mandates from existing clients. Our outsourcing, EAP, and health management practices all continued to see growth compared to same quarter last year, as we began to realize the benefits from new business relationships secured during the latter part of 2010.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the three months ended March 31, 2011 increased by $2.0 million, or 3.7%, to $55.7 million compared to $53.7 million for the same period in 2010. The increase was primarily attributable to annual merit increases and an increase in variable compensation expenses.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2011 remained comparable to the same period in 2010, increasing by $0.3 million, or 2.2%, to $14.0 million compared to $13.7 million.

Finance Costs

Finance costs for the three months ended March 31, 2011 increased by $1.3 million or 50.0%, to $3.9 million compared to $2.6 million for the same period in 2010. The increase was primarily due to the termination of the $137 million and $23 million interest-rate swap agreements during the period, resulting in the immediate recognition of $0.8 million upon settlement, and $0.6 million in amortization related to the remaining loss on the interest-rate swaps.

Interest Expenses related to LP Units and LTIP awards

Interest expense related to LP Units and fair value of LTIP awards decreased by $5.1 million, or 100% to $nil compared to $5.1 million for the same period in 2010. For the comparative 2010 period, in accordance with IFRS, LP Units and LTIP awards were classified as financial liabilities to be fair valued at each reporting period; $5.1 million represents the change in fair value of the LP Units and LTIP awards during the period. On January 1, 2011, pursuant to the Reorganization, all Fund and LP Units were exchanged on a one-for-one basis for common shares of Morneau Shepell (equity instruments) and therefore, no corresponding expense was incurred in 2011.

Amortization of Capital and Intangible Assets

Amortization for the three month ended March 31, 2011 decreased by $2.9 million, or 36.7%, to $5.0 million compared to $7.9 million for the same period in 2010. This decrease was primarily attributable to decreased amortization expense of $2.0 million on proprietary software and $1.4 million on customer contracts acquired through the Shepell•fgi acquisition that became fully amortized during 2010. This was partially offset by an increase in amortization of capital assets of $0.6 million.

Income Tax Expenses (Recovery)

Income tax expense for the three months ended March 31, 2011 increased by $1.7 million to $0.3 million expense compared to a $1.4 million recovery for the same period in 2010. The increase was primarily due to Morneau Shepell's conversion from an income trust structure to a corporation. This is offset by the re-measurement of certain deferred tax balances previously residing in the Fund's flow through entities using the corporate tax rate.

Profit for the period

As a result of the changes noted above, profit for the three months ended March 31, 2011 was $6.5 million compared to a loss of $0.2 million (after IFRS-related adjustments) for the same period in 2010.

Key Financial Measures: EBITDA , Free Cash Flow and Normalized Free Cash Flow

EBITDA

EBITDA increased by $1.5 million or 10.6%, to $15.6 million compared to $14.1 million for the same quarter in 2010. This increase was due to increased revenue of $4.0 million, which was offset by $2.3 million of increased salary, benefit and contractor expenses and other operating expenses.

Free Cash Flow

Free Cash Flow for the three months ended March 31, 2011 increased by $1.3 million to $6.0 million compared to $4.7 million for the same period in 2010. This increase was primarily due to increased cash from operating activities of $2.9 million, that was partially offset by an increased capital expenditure spending of $1.6 million primarily due to increased technology spend to support continued growth and increased leasehold improvement related to the consolidation of head office in Toronto.

Normalized Free Cash Flow

Adjusted Free Cash Flow for the three months ended March 31, 2011 increased by $0.5 million to $10.6 million compared to $10.1 million for the same period in 2010. This increase was primarily the result of an increase in cash from operating activities, before non-cash operating working capital of $2.0 million, offset by increased capital expenditures spending of $1.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table provides an overview of our cash flows for the periods indicated:

Cash Flow Information Selected Unaudited Consolidated Financial Information	Three Months Ended March 31	
(In thousands of dollars)	2011	2010
Cash provided by (used in):		
Operating activities	$ 9,161	$ 6,295
Investing activities	(3,209)	(4,481)
Financing activities	(9,083)	(7,778)
Decrease in cash	$ (3,131)	$ (5,964)

2011 First Quarter Results

Cash from operating activities for the three months ended March 31, 2011 increased by $2.9 million to $9.2 million compared to $6.3 million for the same period in 2010. This change was primarily attributable to increased cash from operating activities before non-cash operating working capital of $2.0 million, and improvement in non-cash operating working capital of $0.9 million.

Cash used in investing activities for the three months ended March 31, 2011 decreased by $1.3 million to cash outflows of $3.2 million compared to cash outflows of $4.5 million for the same period in 2010. This decrease is primarily due to a business acquisition-related payment of $2.5 million in 2010 which did not recur in the current quarter, which was partially offset by increased capital expenditures of $1.2 million mainly on technology spending and leasehold improvements

Cash used in financing activities for the three months ended March 31, 2011 increased by $1.3 million to a use of cash of $9.1 million compared to a use of cash of $7.8 million for the same period in 2010. This increase was primarily attributable to the payment of $4.2 million on settlement of the $137 million and $23 million interest-rate swaps terminated during the period relating to the previous credit agreement, the payment of $1.2 million in renewal fees related to the new and amended credit agreement, and decreased utilization of the line of credit of $1.0 million.

This was partially offset by decreased dividends (including those paid to LP unitholders) paid of $5.1 million as a result of the payment of the December 2010 distributions in 2010 due to the Reorganization.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), facility improvement and office furniture. Additional capital expenditure requirements may result from significant business expansion.

Such amounts are expected to be funded from our operating cash flow. The increase in capital expenditures (excluding those acquired through business acquisitions) for the three months ended March 31, 2011 increased $1.6 million to $3.2 million from $1.6 million in the same period of 2010. The increase in capital expenditures (excluding those acquired through business acquisitions) for the three months ended March 31, 2011 was the result of increased technology spending and leasehold improvements on office consolidation initiatives.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have a term loan and revolving loan described under “Capital Resources”. Future expected payments are as follows:

Summary of Contractual Obligations
(In thousands of dollars)

	Total	2011 to 2012	2013 to 2014	Beyond 2014
Term loan	$ 130,000	$ -	$ -	$ 130,000
Revolving loan	68,000	11,500	-	56,500
Operating leases, gross	94,725	16,249	17,137	61,339
Total	$ 292,725	$ 27,749	$ 17,137	$ 247,839

We are party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimal payments related to these premises have been included above. The terms of the subleases extend through July 2022 and the aggregate sublease income on these subleases is $20,826. We consider the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

Contingent Consideration

The purchase price for Leong & Associates is contingent on business results and is expected to be payable in three instalments. The first instalment of $3.0 million was satisfied on closing through cash and equity consideration, and the second instalment of $2.5 million was satisfied in January 2010. The third and final instalment, which is subject to revenue adjustments plus interest calculated at annual rates of 3.87%, has been estimated to be $4.7 million and will be settled during the second quarter of 2011.

We have no material contractual obligations other than those described in this MD&A and have no off-balance sheet financing arrangements.

Capital Resources

The following table provides an overview of our capital resources:

Capital Resources ***(In thousands of dollars)***	As at March 31, 2011	As at December 31, 2010
Bank indebtedness	$	$ -
Long-term debt, net of unamortized debt issue cost	$ 196,272	$ 194,855
Payable to LP Unit holders on investment [(1)]	$ -	$ 53,729
Shareholders’ equity	$	$

(1) This balance represents Minority Interest (under Canadian GAAP) related to the LP Units classified under IFRS as a financial liability. The LP units were exchanged, on a one-for-one basis for common shares of Morneau Shepell on January 1, 2011.

As at March 31, 2011, our working capital (current assets minus current liabilities, excluding future considerations related to acquisition), was approximately $19.4 million compared to $22.3 million as at December 31, 2010.

In 2008, as part of the Shepell•fgi acquisition, we entered into a credit agreement with a syndicate of Canadian chartered banks for a period of four years maturing on June 1, 2012. On January 1, 2011, Morneau Shepell, in connection with the Reorganization, entered into an amended and restated credit agreement for a term of four years, maturing on January 5, 2015.

Under the amended and restated agreement, the following credit facilities are available:

- $130 million senior secured term loan ("term loan").
- $100 million senior secured revolving term facility ("revolving loan") (increased by $25 million on March 31, 2011 from $75 million provided under the January 1, 2011 agreement).
- $7 million swing line.

The interest rates for the facilities are floating, based on a margin over certain reference rates of interest. The applicable margin may vary up and down depending on the ratio of our consolidated debt to Adjusted EBITDA as calculated in the credit agreement. EBITDA is defined as net income before interest expense, 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.

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

(i) Ratio of debt to Adjusted EBITDA not greater then 3.25:1.0 effective as at December 31, 2010 and up to December 30, 2011, and 3.0:1.0 on December 31, 2011 and thereafter;
(ii) Ratio of EBITDA to interest expense of not less than 3.0:1.0.

We complied with all the required financial covenants and the ratios as at March 31, 2011 were 3.0:1.0 and 5.7:1.0 respectively.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

The following table provides an overview of our selected statement of financial position data:

Selected Statement of Financial Position Data ***(in thousands of dollars)***	As at March 31, 2011	As at December 31, 2010
Current assets	$ 85,596	$ 80,552
Non-Current assets	$ 554,769	$ 555,357
Current liabilities	$ 66,172	$ 58,232
Non-Current liabilities	$ 206,734	$ 267,352

Current Assets

Current assets as at March 31, 2011 increased by $5.0 million to $85.6 million from $80.6 million as at December 31, 2010. The increase was primarily due to an increase in accounts receivable net of unbilled fees of $3.5 million as a result of growth in revenue and the timing of billings and collections, and increased prepaids and other of $1.8 million due to the timing of vendor payments and an increase in supplies inventory maintained for seminars and workshops.

Non-Current Assets

Non-current assets as at March 31, 2011 decreased by $0.6 million to $554.8 million from $555.4 million as at December 31, 2010. The decrease was primarily due to the amortization of capital and intangible assets of $5.0 million, which was partially offset by capital expenditures of $3.2 million, and increased net deferred implementation expenditures associated with outsourcing contracts of $1.2 million.

Current Liabilities

Current liabilities as at March 31, 2011 increased by $8.0 million to $66.2 million from $58.2 million as at December 31, 2010. The increase was primarily the result of increased dividends payable of $3.1 million due to the payment of the December 2010 distribution in 2010 pursuant to the Reorganization, increased utilization of Morneau Shepell's line of credit of $2.8 million, increased trade and other payables of $1.3 million due to the timing of suppliers' payments, and increased deferred revenue of $0.7 million due to the timing of customer billings.

Non-Current Liabilities

Non-current liabilities as at March 31, 2011 decreased by $60.7 million to $206.7 million from $267.4 million as at December 31, 2010. This decrease was primarily the result of the exchange of the Fund and LP Units into Shares of Morneau Shepell of $53.7 million and the classification of LTIP as equity-based awards of $5.4 million, pursuant to the Reorganization. This was further decreased by the payment of $4.2 million payment on settlement of the interest-rate swap agreements on settlement of the $137 million and $23 million interest-rate swaps related to the previous credit agreement that was partially offset by an increase in long-term debt of $1.5 million from the utilization of the revolving facility and in deferred income taxes of $1.2 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements, in accordance with IFRS, requires us to make estimates and assumptions that affect the reported values of assets and liabilities as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates are reviewed each reporting period and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Accordingly, actual results could differ from these estimates. The accounting policies and estimates that are critical to our business relate to the following items:

Revenue Recognition

Revenues include fees generated from administrative, actuarial, and consulting services, EAP, health management, and outsourcing contracts.

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

- The amount of revenue can be reliably measured;
- The stage of completion can be reliably measured;
- The receipt of economic benefits is probable; and
- Costs incurred and to be incurred can be reliably measured.

Concurrently with the above general principles, Morneau Shepell 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 singular 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:

- The delivered item has value to the customer on a stand-alone basis; and
- 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.

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 are recorded at the lower of unbilled hours worked at normal billing rates and the amount which is estimated to be recoverable upon invoicing. Morneau Shepell maintains a provision for amounts expected to be unrecoverable based on the terms of the agreement.

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.

Intangible Assets and Goodwill

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

Intangible assets acquired through acquisitions or business combinations are initially recognized at fair value based on an allocation of the purchase price.

Internally-developed proprietary software for internal use is recognized at the aggregate fair value of all eligible development costs, when all the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- Morneau Shepell is able to use or sell the software;
- Future benefits associated with the software can be demonstrated;
- Adequate technical, financial, and other resources to complete the development and to use or sell the software are available; and
- The expenditures attributable to the software during its development can be reliably measured.

Eligible expenditures capitalized as part of proprietary software developed for internal use include external direct costs of materials and services consumed in development, and payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent that their time was spent directly on the project). All costs incurred in the preliminary research stage of the projects are expensed as incurred.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite life are not amortized, but are tested for impairment. Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Goodwill represents the excess of the cost of business acquisitions over the fair value of our share of the net identifiable assets of the acquired subsidiary or equity method investee at the date of acquisition. Goodwill is not amortized and is subject to an annual impairment test, and is carried at cost less accumulated impairment charges.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax 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 tax is 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 tax is 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 tax is 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.

Deferred tax is 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.

Allowance for Doubtful Accounts

We are 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, taking into consideration customer creditworthiness, current economic trends, and past experience. If future collections differ from estimates, future earnings could be adversely affected.

Litigation and Claims

We are involved in litigation and other claims arising in the normal course of business. We must use judgment to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent upon the potential success of the claim. We believe that none of the current claims will have a material adverse impact on our financial position.

New Accounting Policies

Our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011 represent our interim financial statements prepared in accordance with IAS 34, *Interim Financial Reporting*.

In accordance with IFRS 1, Morneau Shepell has:

- Provided comparative financial information;
- Applied the same accounting policies throughout all periods presented;
- Elected certain optional exemptions from the general requirement for retrospective application of IFRS; and
- Applied certain mandatory exceptions from full retrospective application of IFRS.

Future Accounting Changes

Certain new standards, interpretations, amendments, and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) during the period. The standards impacted and applicable to us are as follows:

IFRS 9, Financial Instruments
IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect Morneau Shepell'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, 2013 but is available for early adoption. We have not early adopted IFRS 9 for the period ended March 31, 2011, and the extent of the impact has not been determined.

IFRS 7, Financial Instruments – disclosure
An amendment to IFRS 7 issued in October 2010 will enhance disclosure requirements relating to the transfer of financial assets.

This will include disclosures for transfers of financial assets that are derecognized in their entirety as well as those that are not. The effective date for the amendment will be for annual periods beginning on or after July 1, 2011. Although earlier application is permitted (subject to disclosure of that fact), the Company has not chosen to early adopt the amendment for the period ended March 31, 2011, and the extent of the impact has not been determined.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remains subject to a number of risks and uncertainties and are affected by a number of factors outside our control.

Risk Related to the Business of Morneau Shepell

Ability to Maintain Profitability and Manage Growth

There can be no assurance that Morneau Shepell will be able to sustain profitability in future periods. Morneau Shepell's future operating results will depend on a number of factors, including its ability to continue to successfully execute its strategic initiatives.

There can be no assurance that Morneau Shepell will be successful in achieving its strategic plan or that its strategic plan will enable the firm to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of Morneau Shepell's strategic plan could have a material adverse effect on its business, financial condition and operating results, and the ability of Morneau Shepell to pay dividends.

There can be no assurance that Morneau Shepell will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the firm's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Reliance on Information Systems and Technology

Information systems are an integral part of Morneau Shepell's business and the products and services offered to its clients. Morneau Shepell relies on systems to maintain accurate records and to carry out required administrative functions in accordance with the terms of its contractual obligations to its clients. In order to maintain the level of security, service and reliability that clients require, Morneau Shepell may be required to make significant investments in the online means of delivering services. The adoption of additional laws or regulations with respect to the internet may impede the efficiency of the internet as a medium of exchange of information and decrease the demand for Morneau Shepell's services.

Any disruptions in Morneau Shepell's systems, the failure of the systems to operate as expected, or the firm's ability to use the internet effectively to deliver services could, depending on the magnitude of the problem, result in a loss of current or future business and/or potential claims against Morneau Shepell, all of which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Reliance on Key Professionals

Morneau Shepell's operations are dependent upon the abilities, experience and efforts of its professionals, many of whom have excellent reputations and a significant number of contacts in the industry in which Morneau Shepell operates. Morneau Shepell's business depends, in part, on its professionals' abilities to develop and maintain client relationships and alliances with businesses such as financial services companies, healthcare organizations, insurance companies, business process outsourcing organizations and other companies, in order to develop, market and deliver its services. Profitability could be negatively impacted if Morneau Shepell's client relationships or business alliances are discontinued due to the loss of professional staff or if the firm has difficulty developing new alliances. Should any member of its professional staff be unable or unwilling to continue his or her relationship with Morneau Shepell, this change could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Reputational Risk

Morneau Shepell depends to a large extent upon its relationships with its clients and its reputation for high-quality services. As a result, the impact of client dissatisfaction with Morneau Shepell's services or products may be more damaging in Morneau Shepell's business than in other businesses. Moreover, if the firm fails to meet its contractual or regulatory obligations, Morneau Shepell could be subject to legal liability and a loss of client relationships.

General Economic Conditions

An economic slowdown could cause a decline in demand for Morneau Shepell's services. Growth in its clients' businesses may be affected by economic slowdowns and could therefore potentially have an impact on Morneau Shepell's operating results. During an economic downturn, Morneau Shepell clients and potential clients may reduce or delay services or projects, or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Pricing and profitability could be adversely affected as a result.

Dependence on Key Clients

As clients may terminate engagements with minimum notice, there can be no assurance that Morneau Shepell will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Shepell's services in the future. Any negative change involving any of Morneau Shepell's largest clients, including but not limited to a client's financial condition or desire to continue using the firm's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends. No one Morneau Shepell client makes up more than 10% of Morneau Shepell's total revenue for the three months ended March 31, 2011 and 2010.

Risk of Future Legal Proceedings

Morneau Shepell may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions.

The pension and benefits consulting and outsourcing service involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding; a claim that inaccurate data was used, which could lead to an underestimation of plan liabilities; or a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, which could lead to overpayments to beneficiaries. The employee health and productivity services involve confidential counseling, occupational health activities and disability case management. Each of these activities could potentially put Morneau Shepell in conflict with its customers, their employees, or both. Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Shepell's actions.

Defending lawsuits of this nature could require much management attention, which could divert its focus from operations. Such claims could produce negative publicity that could harm Morneau Shepell's reputation and business. A significant judgment against Morneau Shepell, or the imposition of a significant fine or penalty as a result of a finding that Morneau Shepell failed to comply with laws or regulations, could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Insurance

Morneau Shepell believes that its professional errors and omissions insurance and director and officer liability insurance coverage address all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that such insurance will continue to be offered on economically feasible terms, that all events that could give rise to a loss or liability are insurable, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Morneau Shepell's assets or operations.

Competition

Morneau Shepell operates in a highly competitive North American market. As a result, Morneau Shepell competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Shepell competes. In addition, some of Morneau Shepell's competitors have substantially more financial resources and/or financial flexibility than Morneau Shepell.

Further, Morneau Shepell's business relies, in part, upon its ability to develop and implement technology solutions, in a cost effective manner that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. Morneau Shepell's competitors may offer new technologies more efficiently or cost effectively than Morneau Shepell. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Relationship with Channel Partners

Morneau Shepell markets its services directly to end-user employers as well as through certain channel partners, primarily insurance companies (many of which compete amongst themselves directly). There can be no assurance that Morneau Shepell will be able to maintain its existing relationships with all these channel partners, which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Satisfactory Performance of Obligations

In its contracts with clients, Morneau Shepell is sometimes committed to meeting identified service levels and/or timelines. If the service levels/timelines are not met, Morneau Shepell may experience reduced revenues, incur significant additional costs or be held responsible for the costs incurred by the client for failure to meet the service level/timeline. Morneau Shepell's success depends in large part upon whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Shepell fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Shepell. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Implications of Fixed-Price Contracts

A portion of Morneau Shepell's revenue comes from fixed-price contracts. A fixed-price contract requires Morneau Shepell to perform either all or a specified portion of work under the contract for a fixed price. Fixed-price contracts expose Morneau Shepell to a number of risks, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond the control of Morneau Shepell, failures of subcontractors to perform, and economic or other changes that may occur during the contract period.
Losses under fixed-price contracts could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Confidentiality of Client Information

Morneau Shepell depends to a large extent on its relationships with its customers and its ability to properly maintain confidential client information. The failure of Morneau Shepell to maintain client confidentiality could, depending on the magnitude of the problem, result in a loss of future business and/or potential claims against Morneau Shepell which could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Protection of Intellectual Property

Morneau Shepell continually develops and improves its proprietary technology solutions for the delivery of its services. No assurance can be given that Morneau Shepell's competitors will not develop substantially similar technology. Morneau Shepell relies on one or more of the following to protect its proprietary rights: trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions. Despite Morneau Shepell's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Morneau Shepell regards as proprietary. Stopping unauthorized use of Morneau Shepell's intellectual property may be difficult, time-consuming and costly. There can be no assurance that Morneau Shepell will be successful in protecting its proprietary rights and, if it is not, this could have a material adverse effect on Morneau Shepell's business, financial condition and operating results, and on the ability of Morneau Shepell to pay dividends.

Potential Undisclosed Liabilities Associated with Acquisition/Limited Indemnification

In connection with acquisitions completed by Morneau Shepell, there may be liabilities and contingencies that Morneau Shepell failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of an acquisition, and Morneau Shepell may not be indemnified for some or all of these liabilities and contingencies.

The existence of any material liabilities or contingencies could have a material adverse effect on Morneau Shepell's business, financial condition, liquidity and results of operations.

Indebtedness and Interest Rates

The ability of Morneau Shepell to pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities. The degree to which Morneau Shepell is leveraged could have important consequences including: Morneau Shepell's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Shepell's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Shepell to the risk of increased interest rates; and Morneau Shepell may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of free cash flow to interest rate variations. Interest rate swap agreements are used as part of Morneau Shepell's program to manage the fixed and floating interest rate of Morneau Shepell's total debt outstanding and related overall cost of borrowing.

The advance of the Credit Facilities has significantly increased the amount of Morneau Shepell's debt compared to historical levels. The Credit Facilities contain numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Shepell to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidated with another entity.

In addition, the Credit Facilities contain a number of financial covenants that require Morneau Shepell to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a reduction or termination of dividends by Morneau Shepell and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities was to be accelerated, there can be no assurance that the assets of Morneau Shepell would be sufficient to repay in full that indebtedness. In addition, the Credit Facilities mature on January 5, 2015. There can be no assurance that future borrowings or equity financing will be available to Morneau Shepell or available on acceptable terms, in an amount sufficient to fund Morneau Shepell's needs.

Foreign Exchange Risk

A portion of Morneau Shepell's sales are in U.S. dollars and thus Morneau Shepell is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure denominated in U.S. dollars was $6.9 million for the period ended March 31, 2011. An increase in foreign revenues would expose Morneau Shepell to fluctuations in exchange rates which may have a material adverse effect on Morneau Shepell's business, financial condition, and operating results, and on the ability of Morneau Shepell to pay dividends.

Income Tax Matters

In the normal course of Morneau Shepell's activities, the tax authorities carry out ongoing reviews. In that respect, Morneau Shepell is of the view that all expenses claimed are reasonable, deductible, and correctly determined. There is no assurance that the tax authorities will not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and return on Common Shares.

Risk Related to the Structure of Morneau Shepell

Dependence on Morneau Shepell Ltd. and Its Subsidiaries

Although Morneau Shepell intends to pay dividends on its Common Shares, there can be no assurance regarding amounts of income to be generated by its operating subsidiaries or ultimately distributed to Morneau Shepell from these subsidiaries. The ability of Morneau Shepell to make dividend payments, and the actual amount paid is entirely dependent on the operations and assets of its subsidiaries and is subject to various factors including their financial performance, obligations under credit facilities, fluctuations in working capital, the sustainability of their margin and capital expenditure requirements and applicable laws and regulations.

Cash Dividends Are Not Guaranteed and Will Fluctuate With the Business Performance

As a corporation, Morneau Shepell's dividend policy will be at the discretion of its Board of Directors. Future dividends, if any, will depend on the operations and assets of Morneau Shepell (and its subsidiaries), and will be subject to various factors including each of its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements.

Market Price of Shares

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in operating results of Morneau Shepell, divergence in financial results from expectations, changes in business prospects for Morneau Shepell, general economic conditions, legislative changes, and other events and factors outside Morneau Shepell's control.

Sales of a substantial number of Common Shares by a significant shareholder in the public market or otherwise could adversely affect the prevailing market prices of the Common Shares and could impair the Corporation's ability to raise additional capital through an offering of Common Shares. The possible perception among the public that these sales will occur could also produce the same effect.

Dilution of Common Shares

Pursuant to its articles of incorporation, Morneau Shepell is authorized to issue an unlimited number of Common Shares and 10 million preferred shares for the consideration and on such terms as are established by the Board of Directors without the approval of any shareholders. Any further issuance of Common shares may dilute the interests of existing shareholders. Furthermore, Morneau Shepell may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Morneau Shepell which may be dilutive.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Operating results, dividends summary and condensed statement of financial position history are as follows:

Operating Results, Dividend and Condensed Statement of Financial Positions
Selected Unaudited Consolidated Financial Information (In thousands of dollars except per share amounts)

Quarter ended	March 31 2011	December 31 2010	September 30 2010	June 30 2010	March 31 2010	December 31 2009[1]	Septembe r 30 2009[1]	June 30 2009[1]
Revenue	$85,402	$87,017	$83,083	$83,669	$81,425	$83,316	$81,728	$84,903
Profit (loss)	6,458	(7,238)	8,671	12,345	(170)	4,169	3,900	3,288
EBITDA	15,609	9,019	17,317	15,848	14,070	15,739	17,253	15,987
Adjusted EBITDA	15,609	16,494	17,857	15,848	14,070	18,474	17,631	15,987
EBITDA margin	18.3%	10.4%	20.8%	18.9%	17.3%	18.9%	21.1%	18.8%
Adjusted EBITDA margin	18.3%	19.0%	21.5%	18.9%	17.3%	22.2%	21.6%	18.8%
Free Cash Flow	5,952	15,153	12,413	(1,237)	4,671	14,365	15,154	45
Normalized Free Cash Flow	10,578	10,413	12,147	11,901	10,144	12,396	11,662	11,416
Dividends declared [4]	9,348	11,288	11,274	11,274	11,274	11,230	11,214	11,234
Earnings per Share (basic) [3]	0.13	NA	NA	NA	NA	0.10	0.09	0.08
Earnings per Share (diluted) [3]	0.13	NA	NA	NA	NA	0.10	0.09	0.08
EBITDA per Share (basic)	0.32	0.19	0.36	0.33	0. 30	0.33	0.36	0.34
Adjusted EBITDA per Share (basic)	0.32	0.35	0.37	0.33	0.30	0.39	0.37	0.34
Payout Ratio (basic) [2]	157.1%	74.5%	90.8%	NM	241.4%	69.1%	65.4%	NM
Normalized Payout Ratio	88.4%	108.4%	92.8%	94.7%	111.1%	90.6%	96.2%	98.4%
Twelve-month rolling Payout Ratio	133.8%	145.5%	140.4%	122.2%	117.9%	109.6%	100.2%	140.9%
Twelve-month rolling Normalized Flow Payout Ratio	95.9%	101.1%	96.7%	97.6%	98.5%	98.3%	89.7%	87.3%
Total assets	$640,365	$635,909	$641,952	$644,885	$644,585	$649,366	$667,708	$677,847
Total long-term debt	$184,772	$183,355	$159,238	$159,121	$159,004	$158,887	$158,769	$158,652

(1) Morneau Shepell adopted IFRS on January 1, 2011, with a date of transition of January 1, 2010; as such, comparative 2010 figures presented have been adjusted to conform with IFRS, but comparative 2009 figures presented are based on Canadian GAAP and have not been restated to IFRS.

(2) This ratio is not presented for the quarter ended June 30, 2010 and June 30, 2009 since it is not a meaningful % when the Free Cash Flow per unit is a negative figure or close to break even.

(3) This calculation has not been presented for the comparative 2010 period given the classification of Fund and LP Units as financial liabilities in accordance with IFRS.

(4) The comparative 2010 and 2009 dividend figures presented represent distributions paid to holders of Fund and LP Units.

Disclosure Controls and Procedures

Our disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed and operating effectively as at March 31, 2011.

Internal control over financial reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are effective to provide this assurance based on the evaluation of these controls conducted as at March 31, 2011.

No changes were determined to be required in our transition to IFRS, or were made in our internal controls over financial reporting during the first quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares currently trade on the Toronto Stock Exchange under the symbol MSI. Additional information relating to us, including all public filings, is available on the SEDAR Web site (www.sedar.com) and on our own Web site at www.morneaushepell.com.

The content of this MD&A reflects information known as of May 12, 2011.

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

Morneau Shepell Inc. is the largest Canadian-owned firm providing human resource consulting and outsourcing services. Through Morneau Shepell and Shepell·fgi, the firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees. With over 2,300 employees in offices across North America, Morneau Shepell offers its services to organizations that are situated in Canada, in the United States and around the globe.

INFO@MORNEAUSHEPELL.COM

WWW.MORNEAUSHEPELL.COM

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