



GENIVAR

Consolidated financial statements

2007 year-end

GENIVAR Income Fund

Consolidated Financial Statements
December 31, 2007 and 2006

(in thousands of dollars)

Auditors' Report

To the Unitholders of GENIVAR Income Fund

We have audited the consolidated balance sheets of **GENIVAR Income Fund** as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive income, deficit and contributed surplus and cash flows for the year ended December 31, 2007 and for the period from May 25, to December 31, 2006. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the period from May 25, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 10, 2008

GENIVAR Income Fund

Consolidated Balance Sheets

As at December 31

(in thousands of dollars)

	2007 \$	2006 \$
Assets		
Current assets		
Cash and cash equivalents	12,855	3,986
Cash held in trust	-	4,200
Accounts receivable (notes 6 and 10)	75,016	51,445
Income taxes receivable	65	87
Costs and anticipated profits in excess of billings (note 10)	27,523	17,910
Advances to companies controlled by the non-controlling unitholder	20	105
Prepaid expenses	1,069	708
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	116,548	78,441
Property, plant and equipment (note 7)	17,141	12,126
Intangible assets (note 8)	45,585	41,834
Goodwill (notes 4 and 9)	126,698	116,437
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	305,972	248,838
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	41,629	28,585
Balances of purchase prices payable (notes 4 and 12)	1,710	-
Advances payable to the non-controlling unitholder	224	8,763
Income taxes payable	235	166
Billings in excess of costs and anticipated profits	17,567	10,783
Future income tax liabilities (note 19)	859	690
Distributions payable to unitholders (note 16)	2,568	2,365
	<hr/>	<hr/>
	64,792	51,352
Bank advances (note 10)	-	6,957
Future income tax liabilities (note 19)	1,923	1,734
Non-controlling interest (note 13)	93,507	79,073
	<hr/>	<hr/>
	160,222	139,116
Unitholders' Equity		
Fund units (note 14)	146,233	110,000
Deficit	(483)	(278)
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	145,750	109,722
	<hr/>	<hr/>
	305,972	248,838
Commitments and contingencies (note 23)		
Subsequent event (note 26)		

The accompanying notes are an integral part of these consolidated financial statements.

(signed) Pierre Shoiry _____ Trustee

(signed) Pierre Seccareccia _____ Trustee

GENIVAR Income Fund

Consolidated Statements of Deficit and Contributed Surplus

(in thousands of dollars)

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Deficit – Beginning of period	278	-
Net earnings for the period	(15,295)	(6,344)
Declared distributions to unitholders (note 16)	15,500	6,622
	<hr/>	<hr/>
Deficit – End of period	483	278
	<hr/>	<hr/>
	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Contributed Surplus – Beginning of period	-	-
Compensation costs under the LTIP (note 17)	275	-
Units vested under the LTIP (note 14)	(275)	-
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Contributed Surplus – End of period	-	-
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The accompanying notes are an integral part of these consolidated financial statements.

GENIVAR Income Fund

Consolidated Statements of Earnings and Comprehensive Income

(in thousands of dollars, except the number of units and per unit data)

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Revenues	257,205	109,781
Costs	156,556	68,876
Gross margin	100,649	40,905
Expenses		
Marketing, general and administrative	57,819	23,063
Depreciation of property, plant and equipment	2,893	1,245
Amortization of intangible assets	10,687	5,391
Net interest expense (note 18)	1,528	404
Exchange loss	793	98
	73,720	30,201
Earnings before income taxes and non-controlling interest	26,929	10,704
Income tax expense (recovery) (note 19)	1,034	(211)
Earnings before non-controlling interest	25,895	10,915
Non-controlling interest (note 13)	(10,600)	(4,571)
Net earnings and comprehensive income for the period	15,295	6,344
Basic net earnings per unit	1.32	0.58
Weighted average number of units (note 15)	11,543,532	11,000,000
Diluted net earnings per unit	1.32	0.58
Diluted weighted average number of units (note 15)	19,635,498	18,927,381

The accompanying notes are an integral part of these consolidated financial statements.

GENIVAR Income Fund

Consolidated Statement of Cash Flows

(in thousands of dollars)

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Cash flows from operating activities		
Net earnings for the period	15,295	6,344
Items not affecting cash and cash equivalents		
Depreciation and amortization	13,580	6,636
Compensation costs under the LTIP	275	-
Future income taxes	512	(332)
Non-controlling interest	10,600	4,571
	40,262	17,219
Change in non-cash working capital items (note 20a)	(8,461)	(3,887)
	31,801	13,332
Cash flows from financing activities		
Repayment of balances of purchase prices payable	(599)	-
Variation in advances to the non-controlling unitholder	(9,204)	1,310
Distributions paid to unitholders	(15,341)	(5,705)
Distributions paid to the non-controlling unitholder	(10,598)	(3,324)
Variation in bank advances	(7,715)	4,148
Repayment of note payable (note 4c)	-	(62,768)
Issuance of units (note 14)	39,000	110,000
Redemption of units from the non-controlling unitholder (note 13)	-	(10,000)
Investment by the non-controlling unitholder (note 13)	11,000	-
Issuance-related costs (note 1)	(2,450)	-
Purchase of units in the market under the LTIP (note 17)	(825)	-
Distributions reinvested in units under the LTIP (note 17)	(24)	-
	3,244	33,661
Cash flows from investing activities		
Business acquisition, less net cash acquired (note 4)	(22,866)	(37,171)
Variation in advances to companies controlled by the non-controlling unitholder	85	(105)
Additions to property, plant and equipment (note 20b)	(6,440)	(1,323)
Proceeds from disposal of property, plant and equipment	457	52
Acquisition of software (note 20b)	(1,612)	(260)
	(30,376)	(38,807)
Increase in cash and cash equivalents	4,669	8,186
Cash and cash equivalents – Beginning of period *	8,186	-
Cash and cash equivalents – End of period*	12,855	8,186
Additional information (note 20b)		
Interest paid	1,929	194
Interest received	(123)	(41)
Income taxes paid	431	327

* Cash and cash equivalents as at December 31, 2006 consist of cash and cash equivalents and cash held in trust.

The accompanying notes are an integral part of these consolidated financial statements.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

1 Description of the Fund

The Fund is an unincorporated, open-ended, limited purpose trust created pursuant to the Fund Declaration of Trust made as of March 31, 2006, as amended and restated on May 16, 2006, and is governed by the laws of the Province of Quebec. The Fund has been created to invest, through GENIVAR Operating Trust (the "Trust"), a wholly-owned trust, in limited partnership units of GENIVAR Limited Partnership ("GENIVAR LP") and in shares of GENIVAR GP Inc. ("Genivar GP"), the general partner of GENIVAR LP.

The Fund offers services ranging from planning to execution and including conceptual and development studies, feasibility and economic studies, preliminary engineering and detailed design, plans and specifications, work supervision as well as environmental planning.

The Fund began its operations on May 25, 2006. It has not carried on any business from March 31, to May 25, 2006, except for the issuance of initial units.

On May 25, 2006, the Fund issued, pursuant to an initial public offering ("IPO"), 10,000,000 units for proceeds of \$100,000. On June 5, 2006, the underwriters exercised their over-allotment option in full through the issuance of 1,000,000 additional units for proceeds of \$10,000. The Fund has indirectly acquired, through the Trust, 11,000,000 Class A LP units of GENIVAR LP representing a 58.12% interest.

On September 13, 2007, the Fund issued, pursuant to a public offering, 1,902,439 units for gross proceeds of \$39,000. Issuance-related costs amounted to \$2,340 less future income taxes of \$147. Concurrently with the closing of the offering, GENIVAR inc., the non-controlling unitholder, subscribed, directly and indirectly, for 536,585 Non-Subordinated Exchangeable LP Units of GENIVAR LP and 536,585 Special Voting Units of the Fund for gross proceeds of \$11,000. Issuance-related costs amounted to \$110 less future income taxes of \$7. Following this transaction, the Fund now owns 12,902,439 Class A LP Units of GENIVAR LP, representing a 60.4% interest.

2 Changes in accounting policies

On January 1, 2007, the Fund adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

- Section 1506, "Accounting Changes". This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.
- Section 1530, "Comprehensive Income". This section establishes standards for reporting and display of certain gains and losses recognized in comprehensive income, but excluded from net income. The adoption of this section implied that the Fund now presents a consolidated statement of earnings and comprehensive income as a part of the consolidated financial statements.

GENIVAR Income Fund

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

- Section 3855 "Financial Instruments – Recognition and Measurement". This section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the consolidated financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, whether they are part of a hedging relationship or not, have to be measured at fair value. The Fund does not use hedge accounting.

The Fund has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings.
- Accounts receivable, costs and anticipated profits in excess of billings, and advances to companies controlled by the non-controlling unitholder are classified as loans and receivables and are initially measured at fair value, except for the related party transactions, which are measured at cost, and subsequently at amortized cost using the effective interest rate method. For the Fund, the measured amount corresponds to cost since the transactions occurred with related parties or as a result of their short-term maturity.
- Accounts payable and accrued liabilities, balances of purchase prices payable, advances payable to the non-controlling unitholder, billings in excess of costs and anticipated profits, distributions payable to unitholders, and bank advances are classified as other liabilities and are initially measured at fair value except for the related party transactions, which are measured at cost and subsequently at amortized cost using the effective interest rate method. For the Fund, the measured amount corresponds to cost since the transactions occurred with related parties or as a result of their short-term maturity.
- Section 3251, "Equity". This section describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, "Comprehensive Income."
- Section 3865, "Hedges." This section provides an alternative to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, "Hedging Relationships," and on the hedging guidance in Section 1650, "Foreign Currency Translation."
- Section 1540, "Cash Flow Statements." This section has been amended to include disclosure of the extent to which cash distributions are non-discretionary. These requirements apply to all cash distributions on financial instruments classified as equity, which are determined in accordance with a contractual agreement or relevant constating document.

The Fund adopted these new recommendations prospectively. The implementation of these standards had no significant impact on the consolidated financial statements of the Fund.

GENIVAR Income Fund

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In October 2007, the CICA issued EIC-167, "Future Income Tax Liabilities – Income Trusts and Other Specified Investment Flow-Throughs" and modified EIC-107, "Application of CICA 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts." EIC-167 addresses when future income tax assets and liabilities should be recognized as a result of changes to the Income Tax Act, whether the recognition of a future income tax asset and liability is a charge to income or a charge to equity, how to measure the future income tax asset or liability, and which disclosures should be made in the financial statements pertaining to the future income tax asset and liability. EIC-107 was amended as a consequence of a change to the Income Tax Act, which affects income trusts and specified income flow-throughs and the issuance of EIC-167. The impact of the implementation of these standards is presented in note 19.

3 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Consolidation and joint ventures

These financial statements include the accounts of the Fund, the Trust, GENIVAR GP, GENIVAR LP and its subsidiaries.

The Fund conducts certain activities in joint ventures with other parties. The interests in such joint ventures are accounted for using the proportionate consolidation method, which results in the Fund recording its pro rata share of the assets, liabilities, revenues, costs and cash flows of each of these joint ventures using the most recent financial statements of the joint ventures available, which are not necessarily the ones as at December 31, 2007.

All significant intercompany transactions and balances have been eliminated.

Variable interest entities

Entities that are subject to control on a basis other than ownership of voting interests are accounted for using the accounting requirement on the consolidation of variable interest entities ("VIEs") under Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities". VIEs are characterized as entities in which the equity is not sufficient to permit them to finance their activities without external support, or equity investors lack either voting control, an obligation to absorb expected losses or the right to receive expected residual returns.

GENIVAR Income Fund

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Where a reporting entity is determined to have a variable interest in such an entity, and where that interest will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected returns, or both at the end of the VIE's existence, the reporting entity is deemed to be the primary beneficiary, and must consolidate the VIE. VIEs controlled by the Fund, otherwise than by voting control, and for which the Fund is the primary beneficiary, are consolidated.

Translation of foreign currencies

For foreign currency transactions and foreign entities, which are considered financially and operationally integrated, the temporal method of translation of foreign currencies has been used. Monetary items are translated at the rate in effect at the balance sheet date, non-monetary items are translated at their historical rate (as well as the related depreciation and amortization) and revenues and expenses are translated at the rate in effect at the transaction date or at the average exchange rates during the period as appropriate. Translation gains and losses are recorded in earnings.

Foreign currency forward options and contracts

The Fund's foreign currency forward options and contracts do not qualify for hedge accounting. Accordingly, these options and contracts are accounted for at fair value, and any subsequent variation in the fair value is allocated to earnings as an unrealized exchange gain or loss.

Revenue recognition

Revenues and profits from cost-plus contracts with ceilings and from fixed price contracts are accounted for using the percentage-of-completion method, which is calculated on the ratio of contract costs incurred to total anticipated costs.

Revenues and profits from cost-plus contracts without stated ceilings and from short-term projects are recognized as costs are incurred and are calculated based on billing rates for the services performed.

Certain costs incurred by the Fund for subconsultants and other expenses that are recoverable directly from clients are billed to them and therefore, are included in revenues. In all cases, the value of goods and services purchased by the Fund, when acting as purchasing agent for a client, is not recorded as revenue.

Revisions of estimates are reflected in the accounts on a periodic basis and all foreseeable losses are included in earnings, when it is determined that such losses are estimated to be likely to occur.

Deferred revenue represents deposits on contracts received in advance (note 11).

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks as well as all highly liquid short-term investments with original maturities of three months or less. They are accounted for at their estimated fair value which approximates cost.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated as follows:

	Methods	Rates and periods
Buildings	Declining balance	4% and 10%
Building under construction	-	-
Leasehold improvements	Straight-line	Lease term
Furniture and equipment	Declining balance	20% and 25%
Computer equipment	Declining balance	30%
Automotive equipment	Declining balance	30%

Intangible assets

Intangible assets with finite useful lives consist of software, customer relationships, contract backlogs and non-competition agreements. The trade name is an indefinite-lived intangible asset and accordingly is not subject to amortization. However, the value of the trade name is tested for impairment on an annual basis, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The other intangible assets are amortized as follows:

	Methods	Rates and periods
Software	Declining balance	30%
Customer relationships	Straight-line	9 to 14 years
	Sum-of-the-years-digits	7 years
Contract backlogs	Straight-line	1 to 2 years
Non-competition agreements	Straight-line	4 years

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis, or more frequently if events or circumstances indicate that it might be impaired. The impairment test is accomplished mainly by determining whether the fair value of a reporting unit, based upon an accepted valuation method, exceeds the carrying amount of that reporting unit. If the fair value exceeds the carrying amount of the reporting unit, no impairment is necessary. If the carrying amount of the reporting unit exceeds its fair value, a second test must be performed whereby the fair value of the reporting unit's goodwill must be compared with its carrying value to measure the amount of the impairment loss, if any. Fair value of goodwill is estimated in the same way as it was determined at the date of the acquisition. When the carrying amount of the reporting unit's goodwill exceeds the fair value of the goodwill, an impairment loss equal to the excess is recognized.

The Fund has elected to carry out its annual impairment test in December of each year for all its existing reporting units.

Income taxes

Before June 12, 2007, under the terms of the *Income Tax Act (Canada)*, the Fund was not subject to income taxes to the extent that its taxable income in a year was paid or payable to a unitholder. Accordingly, no provision for current income taxes for the Fund was made. In addition, the Fund was not subject to the recommendations of CICA Handbook Section 3465, Income Taxes regarding future income tax recognition, as the Fund was contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund.

The future income tax provision included in the Fund's consolidated financial statements before this date reflects only those temporary differences expected to reverse within two Fund's operating subsidiaries subject to CICA Handbook Section 3465 and to corporate income taxes as computed under the prescribed legislation.

On June 12, 2007, draft legislative proposals to implement a tax on distributions from publicly traded income trusts and partnerships passed third reading in the House of Commons and received Royal Assent on June 22, 2007 (Bill C-52). The Bill contained what has become known as the "SIFT Rules" to bring these tax changes into force. Since the second quarter of 2007, the Fund accounts for future income taxes. The cumulative effect of future income taxes recognized, in addition to the taxes recognized by operating subsidiaries subject to income taxes, is based on existing temporary differences that are expected to reverse from January 1, 2011, when the new tax rules take effect.

Income taxes are accounted for using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse based on a stand-alone basis. Valuation allowance is established against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

Long-Term Incentive Plan ("LTIP")

The officers and key employees are eligible to participate in GENIVAR LP's LTIP (note 17). The plan provides that one-third of the units will vest equally over a three-year period following the grant of the awards. The Fund accounts for a compensation cost, on a straight-line basis, over the vesting period of the units. Units purchased in the market have been applied against unitholders' equity.

Earnings per unit

Basic earnings per unit are determined using the weighted average number of units outstanding during the period.

Diluted earnings per unit are determined using the weighted average number of units outstanding during the period, plus the effects of dilutive potential units outstanding during the period. The calculation of diluted earnings per unit is made using the treasury stock method.

Future accounting standards

The CICA published the following new sections that are effective for the Fund for interim and annual financial statements beginning on January 1, 2008:

- Section 3862, "Financial Instruments – Disclosures." This section describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- Section 3863, "Financial Instruments – Presentation." This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments – Disclosure and Presentation."
- Section 1535, "Capital Disclosures." This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.
- Section 1400, "General Standards on Financial Statement Presentation." This standard has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern.

These standards will be adopted by the Fund as of January 1, 2008. The application of these standards does not have a material impact on the financial position or results of operations of the Fund.

GENIVAR Income Fund

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

4 Business acquisitions

The acquisitions have been accounted for using the purchase method, and the operating results have been included in the consolidated financial statements from the date of acquisition. Upon a change in the purchase price, the net assets acquired and the balance of purchase price payable are modified when it is determined that such change is estimated to be likely to occur. Such change occurs when there is a price adjustment provision to the carrying value of the net assets acquired.

(a) Acquisitions made by the Fund during 2007

- On January 1, 2007, the Fund acquired certain assets and liabilities of Cochrane Design Group ("CDG"), a Western-Canada-based multidisciplinary engineering consulting firm, for a consideration of \$4,962, including acquisition-related costs.
- On January 1, 2007, the Fund acquired certain assets of Kazmar Associates ("Kazmar"), an Ontario-based structural engineering firm, for a consideration of \$2,154, including acquisition-related costs.
- On February 25, 2007, the Fund acquired all assets and liabilities of Groupe G.L.D. ("GLD"), a Quebec-based multidisciplinary engineering consulting firm previously owned by GENIVAR inc., for a consideration of \$4,035, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of GLD for a consideration of \$4,000 (note 21).
- On April 28, 2007, the Fund acquired all the assets and liabilities, except for the building (valued at \$500), of NOVE Environnement ("NOVE"), a Quebec-based environment consulting firm previously owned by GENIVAR inc., for a consideration of \$1,234, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of NOVE for a consideration of \$1,700 (note 21).
- On July 3, 2007, the Fund acquired all of the assets and liabilities, except for the assets used exclusively in connection with the Value Engineering Business (valued at \$400), of National Capital Engineering ("NCE"), an Ontario-based transportation planning and design engineering firm previously owned by GENIVAR inc., for a consideration of \$2,739, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of NCE for a consideration of \$3,051 (note 21).
- On July 10, 2007, the Fund acquired all the assets and liabilities of SEG Engineering ("SEG"), a Manitoba-based municipal infrastructure firm previously owned by GENIVAR inc., for a consideration of \$2,876, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of SEG for a consideration of \$2,800 (note 21).

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- On July 28, 2007, the Fund acquired all the assets and liabilities of Harmer Podolak Engineering Consultants ("Harmer"), an Ontario-based bridge and civil infrastructure design firm previously owned by GENIVAR inc., for a consideration of \$2,448, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of Harmer for a consideration of \$2,405 (note 21).
- On September 1, 2007, the Fund acquired all the assets and liabilities of TERRA experts conseils ("TERRA"), a Quebec-based municipal infrastructure firm previously owned by GENIVAR inc., for a consideration of \$401, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of TERRA for a consideration of \$396 (note 21).
- On October 1, 2007, the Fund acquired all the assets and liabilities of André Simard et Associés ("ASA"), a Québec-based municipal infrastructure and environmental firm previously owned by GENIVAR inc., for a consideration of \$1,718, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of ASA for a consideration of \$1,699 (note 21).
- On October 27, 2007, the Fund acquired all the assets and liabilities of B.H. Martin Consultants Ltd. ("BHM"), an Ontario-based multidisciplinary engineering firm previously owned by GENIVAR inc., for a consideration of \$2,833, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of BHM for a consideration of \$2,765 (note 21).
- On October 31, 2007, the Fund acquired all the assets and liabilities of 9142-1362 Québec Inc. ("VIZ"), a Québec-based visual simulation firm previously owned by GENIVAR inc., for a consideration of \$538, including acquisition-related costs. On the same day, GENIVAR inc. had acquired all the outstanding shares of VIZ for a consideration of \$523 (note 21).

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The final purchase price allocations of CDG, GLD, Kazmar and NOVE shown below are based on an independent valuation report. The purchase price allocations of NCE, SEG, Harmer, TERRA, ASA, and VIZ are preliminary, but the Fund does not anticipate any significant changes upon the finalization of the evaluation of the intangible assets in the final purchase price allocations. The purchase price allocation of BHM has not been completed, and as such, any excess of the consideration paid over management's best estimate of the fair value of net tangible assets acquired has been allocated to goodwill.

	CDG	GLD	NCE	SEG	BHM	Others**	Total
	\$	\$	\$	\$	\$	\$	\$
Assets acquired							
Current assets							
Cash	-	92	-	-	185	486	763
Accounts receivable	-	1,372	857	1,024	1,051	2,500	6,804
Costs and anticipated profits in excess of billings	58	294	1,086	-	-	1,338	2,776
Prepaid expenses	418	149	19	5	27	162	780
	476	1,907	1,962	1,029	1,263	4,486	11,123
Property, plant and equipment	882	293	37	17	685	446	2,360
Intangible assets							
Finite useful life							
Software	118	-	4	18	14	89	243
Customer relationships	2,766	915	310	1,105	-	4,064	9,160
Contract backlogs	745	494	156	205	-	834	2,434
Non-competition agreements	322	92	-	-	-	167	581
	5,309	3,701	2,469	2,374	1,962	10,086	25,901
Liabilities assumed							
Current liabilities							
Bank advances	-	(380)	(94)	(118)	-	(166)	(758)
Accounts payable and accrued liabilities	(347)	(830)	(1,216)	(210)	(536)	(2,295)	(5,434)
Advances payable to the non-controlling unitholder	-	(91)	(27)	(119)	(161)	(223)	(621)
	(347)	(1,301)	(1,337)	(447)	(697)	(2,684)	(6,813)
Net identifiable assets acquired	4,962	2,400	1,132	1,927	1,265	7,402	19,088
Goodwill *	-	1,635	1,607	949	1,568	1,091	6,850
Purchase price	4,962	4,035	2,739	2,876	2,833	8,493	25,938
Less:							
Cash acquired	-	(92)	-	-	(185)	(486)	(763)
Balances of purchase prices payable	(561)	-	-	-	(1,015)	(733)	(2,309)
Net cash used for the acquisitions	4,401	3,943	2,739	2,876	1,633	7,274	22,866

* Goodwill is deductible for income tax purposes.

** Others include Kazmar, NOVE, Harmer, TERRA, ASA, and VIZ.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

(b) Finalization of a purchase price allocation

During the third quarter of 2007, the Fund finalized the allocation of the purchase price pertaining to the acquisition of Martoni, Cyr & Associates ("Martoni") realized on December 1, 2006. The final allocation, based on an independent valuation report, resulted in an increase in customer relationships of \$135, a decrease in contract backlogs of \$3, and the recognition of non-competition agreements of \$80. Purchase price increased by \$44 due to a change in the acquisition-related costs. As a result of these changes, goodwill decreased by \$168.

(c) Acquisitions from May 25, to December 31, 2006

- Upon the closing that occurred on May 25, 2006, GENIVAR LP acquired certain operating assets related to GENIVAR Engineering Services Business as well as all of the outstanding shares of GENIVAR Ontario Inc. and GENIVAR (Trinidad Tobago) Ltd. directly or indirectly held by GENIVAR inc., the non-controlling unitholder. The purchase price amounting to \$189,274 has been settled as follows: a cash amount of \$37,232, a note payable of \$62,768 and the issuance of 4,195,536 Non-Subordinated Exchangeable LP Units and 4,731,845 Subordinated Exchangeable LP Units having respective values of \$41,955 and \$47,319 (note 13).
- On December 1, 2006, GENIVAR LP acquired all of the assets and liabilities of Martoni, a Quebec-based engineering consulting firm previously owned by GENIVAR inc. The purchase price of \$4,000 was fully settled in cash. On the same day, GENIVAR inc. had acquired all the outstanding shares of Martoni for a consideration of \$4,000 (note 21).

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The purchase price allocation of GENIVAR shown below is based on an independent valuation report. The purchase price allocation of Martoni is preliminary and has been finalized during 2007 (note 4b).

	GENIVAR \$	Martoni \$	Total \$
Assets acquired			
Current assets			
Cash	4,061	-	4,061
Accounts receivable	42,567	1,191	43,758
Income taxes receivable	159	-	159
Costs and anticipated profits in excess of billings	17,799	658	18,457
Prepaid expenses	1,210	112	1,322
	<u>65,796</u>	<u>1,961</u>	<u>67,757</u>
Property, plant and equipment	10,876	242	11,118
Intangible assets	45,766	929	46,695
	<u>122,438</u>	<u>3,132</u>	<u>125,570</u>
Liabilities assumed			
Current liabilities			
Accounts payable and accrued liabilities	(25,417)	(1,558)	(26,975)
Income taxes payable	(445)	-	(445)
Billings in excess of costs and anticipated profits	(8,295)	-	(8,295)
Advances payable to the non-controlling unitholder	(7,282)	(171)	(7,453)
	<u>(41,439)</u>	<u>(1,729)</u>	<u>(43,168)</u>
Bank advances	(2,791)	(18)	(2,809)
Future income tax liabilities	(2,756)	-	(2,756)
	<u>(46,986)</u>	<u>(1,747)</u>	<u>(48,733)</u>
Net identifiable assets acquired	75,452	1,385	76,837
Goodwill	113,822	2,615	116,437
	<u>189,274</u>	<u>4,000</u>	<u>193,274</u>
Purchase price including acquisition-related costs of \$9,200 of GENIVAR	189,274	4,000	193,274
Less:			
Cash acquired	(4,061)	-	(4,061)
Note payable	(62,768)	-	(62,768)
LP units (note 13)	(89,274)	-	(89,274)
	<u>(156,103)</u>	<u>-</u>	<u>(156,103)</u>
Net cash used for the acquisitions	<u>33,171</u>	<u>4,000</u>	<u>37,171</u>

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

5 Joint ventures activities

The following is a summary of the Fund's proportionate share in the assets, liabilities, revenues, costs and cash flows of the joint ventures, included in the consolidated financial statements:

	2007 \$	2006 \$
Statements of earnings		
Revenues	27,050	15,612
Costs	17,537	11,180
	<hr/>	<hr/>
Gross margin	9,513	4,432
Statements of cash flows		
Cash flows provided from operating activities	8,883	2,751
Current assets		
Cash	3,041	2,242
Accounts receivable	8,526	6,942
Costs and anticipated profits in excess of billings	2,027	2,043
	<hr/>	<hr/>
Total assets	13,594	11,227
Current liabilities		
Accounts payable and accrued liabilities	4,773	4,252
Billings in excess of costs and anticipated profits	2,397	1,980
Advances to the non-controlling unitholder	-	2,881
	<hr/>	<hr/>
Total liabilities	7,170	9,113

6 Accounts receivable

	2007 \$	2006 \$
Trade receivables *	74,536	50,486
Companies controlled by the non-controlling unitholder	406	959
Non-controlling unitholder	74	-
	<hr/>	<hr/>
	75,016	51,445

* Trade receivables include holdbacks amounting to \$2,225 (\$1,275 in 2006).

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

7 Property, plant and equipment

	2007		
	Cost	Accumulated	Net
	\$	depreciation	value
		\$	\$
Land	355	-	355
Buildings	6,498	263	6,235
Leasehold improvements	1,847	533	1,314
Furniture and equipment	5,917	1,326	4,591
Computer equipment	6,370	1,892	4,478
Automotive equipment	257	89	168
	<u>21,244</u>	<u>4,103</u>	<u>17,141</u>
			2006
	Cost	Accumulated	Net
	\$	depreciation	value
		\$	\$
Land	525	-	525
Buildings	3,430	82	3,348
Building under construction	1,042	-	1,042
Leasehold improvements	1,165	160	1,005
Furniture and equipment	3,770	428	3,342
Computer equipment	3,235	540	2,695
Automotive equipment	204	35	169
	<u>13,371</u>	<u>1,245</u>	<u>12,126</u>

8 Intangible assets

	2007		
	Cost	Accumulated	Net
	\$	amortization	value
		\$	\$
Finite useful life			
Software	4,107	1,292	2,815
Customer relationships	36,346	3,738	32,608
Contract backlogs	13,939	10,174	3,765
Non-competition agreements	2,671	874	1,797
Indefinite useful life			
Trade name	4,600	-	4,600
	<u>61,663</u>	<u>16,078</u>	<u>45,585</u>

GENIVAR Income Fund

Notes to Consolidated Financial Statements

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	2006		
	Cost	Accumulated	Net
	\$	amortization	value
	\$	\$	\$
Finite useful life			
Software	2,056	330	1,726
Customer relationships	27,051	1,235	25,816
Contract backlogs	11,508	3,522	7,986
Non-competition agreements	2,010	304	1,706
Indefinite useful life			
Trade name	4,600	-	4,600
	<u>47,225</u>	<u>5,391</u>	<u>41,834</u>

During the year, the Fund acquired intangible assets amounting to \$14,438 (\$47,225 for the period from May 25, to December 31, 2006). Of this sum, an amount of \$14,438 (\$42,625 for the period from May 25, to December 31, 2006) is subject to amortization.

9 Goodwill

	2007	2006
	\$	\$
Balance – Beginning of period	116,437	-
Goodwill resulting from business acquisitions (note 4a and 4c)	6,850	116,437
Goodwill resulting from a step-by-step acquisition *	3,579	-
Finalization of a purchase price allocation (note 4b)	(168)	-
Balance – End of period	<u>126,698</u>	<u>116,437</u>

* On September 13, 2007, the Fund acquired 1,902,439 units issued by GENIVAR LP for a cash consideration of \$39,000 less acquisition-related costs of \$2,450. Concurrently, GENIVAR Inc., the non-controlling unitholder, subscribed for 536,585 Non-Subordinated Exchangeable LP Units of GENIVAR LP for a cash consideration of \$11,000. As a result of this transaction, the Fund increased its interest in GENIVAR LP to 60.4% (58.12% before this transaction). This transaction has been accounted for as a step-by-step acquisition. The excess of the purchase price over the net identifiable assets on the date of acquisition amounted to \$3,579 and has been recorded as goodwill not deductible for income tax purposes. Accordingly, the non-controlling interest has increased by \$3,579.

As at December 31, 2007, goodwill amounted to \$9,297 (\$2,615 in 2006) is deductible for income tax purposes.

GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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10 Credit facilities

The Fund has credit facilities totalling \$42,000 allocated as follows:

Term facility

Term facility of \$40,000 for operations purposes and for the financing of acquisitions. The term facility may also be used for the payment of distributions to unitholders up to a maximum amount of \$5,000.

Treasury facility

Facility of \$2,000 to hedge against interest rate risks and foreign exchange risks.

These credit facilities have a three-year term and mature in May 2010. The term of the credit facilities can be extended each year, for an additional one-year period, subject to the prior approval of the lender. The credit facilities are fully repayable at maturity without any prepayment penalties, except for banker's acceptances and LIBOR advances. Consistent with the original provisions of the credit facilities agreement, the bank advances balance of \$6,957 as at December 31, 2006, have been reclassified as a long-term liability.

These credit facilities are secured by a first hypothec over the universality of movable assets and bear interest at prime rate, US base rate or LIBOR rate plus an applicable margin that will vary depending on the type of advance and total consolidated debt to earnings before interest, income taxes, depreciation and amortization ratio, as defined in the agreement.

Under these credit facilities, the Fund is required, among other conditions, to respect certain covenants, which have been met as at December 31, 2007 and 2006.

As at December 31, 2007, the credit is unused since the Fund reimbursed the bank advances with the proceeds of the units issued in September. The Fund issued, in the normal course of business, irrevocable letters of credit totalling \$348 for its own commitments, thus decreasing such available credit facilities.

11 Accounts payable and accrued liabilities

	2007	2006
	\$	\$
Trade payables and accrued liabilities	41,333	27,299
Non-controlling unitholder	70	-
Companies controlled by the non-controlling unitholder	37	1,083
Deferred revenue	178	113
Fair value of foreign currency forward options and contracts (note 22)	11	90
	<hr/>	<hr/>
	41,629	28,585
	<hr/>	<hr/>

GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

12 Balances of purchase prices payable

	2007 \$	2006 \$
Non-controlling unitholder		
Prime rate, payable in 2008	202	-
Vendors		
Prime rate, payable in 2008	483	-
Fixed rate of 5%, payable in 2008	525	-
Fixed rate of 5%, payable at the earliest of the receipt of a credit letter from a former shareholder of \$500 or 10 days after the date on which a claim is finally resolved or settled	500	-
	<hr/> 1,710	<hr/> -

GENIVAR Income Fund

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

13 Non-controlling interest

As at December 31, 2007 and 2006, the non-controlling interest is as follows:

	Non-Subordinated Exchangeable LP Units		Subordinated Exchangeable LP Units		Total	
	Number	\$	Number	\$	Number	\$
Balance as at May 25, 2006	-	-	-	-	-	-
Units issued pursuant to the business acquisition (note 4c)	4,195,536	41,955	4,731,845	47,319	8,927,381	89,274
Units disposed of upon exercise of over-allotment option (note 1)	(1,000,000)	(10,000)	-	-	(1,000,000)	(10,000)
Share in earnings attributable to the non-controlling unitholder	-	1,842	-	2,729	-	4,571
Distributions	-	(1,923)	-	(2,849)	-	(4,772)
Balance as at December 31, 2006	3,195,536	31,874	4,731,845	47,199	7,927,381	79,073
Units issued pursuant to a public offering (note 1)	536,585	11,000	-	-	536,585	11,000
Issuance-related costs less future income taxes (note 1)	-	(103)	-	-	-	(103)
Increase of the non-controlling interest as a result of a step-by-step acquisition (note 9)	-	1,578	-	2,001	-	3,579
Share in earnings attributable to the non-controlling unitholder	-	4,435	-	6,165	-	10,600
Distributions	-	(4,493)	-	(6,149)	-	(10,642)
Balance as at December 31, 2007	3,732,121	44,291	4,731,845	49,216	8,463,966	93,507

The Non-Subordinated Exchangeable LP Units and Subordinated Exchangeable LP Units are economically equivalent to Class A LP Units held by the Trust, except that distributions on Subordinated Exchangeable LP Units will be made only at the end of the quarter provided that GENIVAR LP has made a monthly distribution

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of at least \$0.0833 per unit to the holders of Class A LP Units and of Non-Subordinated Exchangeable LP Units and that any distribution deficiency during the last twelve months has been settled.

The Non-Subordinated Exchangeable LP Units will be exchangeable for units on a one-for-one basis (subject to customary anti-dilution protections). The Subordinated Exchangeable LP Units will be exchangeable for units at any time after the Subordination End Date on a one-for-one basis (subject to customary anti-dilution protections), which date cannot occur before July 1, 2008. The Subordinated Exchangeable LP Units may also be exchanged for units before the Subordination End Date in certain specified circumstances.

As at December 31, 2007, an amount of \$1,493 (\$1,449 in 2006) has been accounted for as distributions payable to the non-controlling unitholder.

14 Fund units

An unlimited number of units and an unlimited number of Special Voting Units may be issued pursuant to the Fund Declaration of Trust.

Units

Each unit is transferable and represents an equal, undivided right to and interest in any distributions from the Fund, whether of net earnings, net realized capital gains (other than net realized capital gains distributed to redeeming unitholders) or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund. All units are of the same class with equal rights and privileges. Units may, however, be redeemed at the holder's request at any time for an amount related to the quoted market price, cash redemptions being limited to \$50 per month.

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

Issued and paid

	Number of units			\$
	Issued	Held by a trustee	Total	
Balance as at May 25, 2006	10	-	10	-
Units issued pursuant to the IPO (note 1)	10,000,000	-	10,000,000	100,000
Units acquired upon exercise of over-allotment option (note 1)	1,000,000	-	1,000,000	10,000
Redemption of units	(10)	-	(10)	-
Balance as at December 31, 2006	11,000,000	-	11,000,000	110,000
Units issued pursuant to a public offering (note 1)	1,902,439	-	1,902,439	39,000
Issuance-related costs less future income taxes (note 1)	-	-	-	(2,193)
Units purchased in the market under the LTIP (note 17)	-	(46,142)	(46,142)	(825)
Distributions reinvested in units under the LTIP	-	(871)	(871)	(24)
Units vested under the LTIP (note 17)	-	15,379	15,379	275
Balance as at December 31, 2007	12,902,439	(31,634)	12,870,805	146,233

Special Voting Units

The Special Voting Units will not be entitled to any right to nor interest in any distribution from the Fund whether of net earnings, net realized capital gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund.

The Special Voting Units may be issued in series and will only be issued in connection with or in relation to Non-Subordinated Exchangeable LP Units, Subordinated Exchangeable LP Units of GENIVAR LP or other securities that are, directly or indirectly, exchangeable for units, in each case for the sole purpose of providing voting rights at the Fund level to the holders of such securities. Special Voting Units will be issued in conjunction with, and will not be transferable separately from, the Non-Subordinated Exchangeable LP Units or Subordinated Exchangeable LP Units (or other exchangeable securities) to which they relate. Conversely, the

GENIVAR Income Fund

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Special Voting Units will automatically be transferred upon a transfer of the associated Non-Subordinated Exchangeable LP Units or Subordinated Exchangeable LP Units. Each Special Voting Unit will entitle the holder thereof to a number of votes at any meeting of Voting Unitholders equal to the number of units which may be obtained upon the exchange of the Exchangeable LP Units (or other exchangeable securities) to which the Special Voting Unit relates.

Upon the exchange of the Non-Subordinated Exchangeable LP Units or Subordinated Exchangeable LP Units (or other exchangeable securities) for units, the Special Voting Units attached to such securities will immediately be cancelled without any further action of the Fund Trustees or the former holder of such Special Voting Units, and the former holder of such Special Voting Units will cease to have rights with respect thereto.

One Special Voting Unit will be outstanding for each Non-Subordinated Exchangeable LP Unit and Subordinated Exchangeable LP Unit issued by GENIVAR LP. As at December 31, 2007, 8,463,966 Special Voting Units are outstanding (7,927,381 in 2006).

15 Earnings per unit

The following table reconciles the basic net earnings to the diluted net earnings:

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Basic net earnings	15,295	6,344
Non-controlling interest	10,600	4,571
	<hr/>	<hr/>
Diluted net earnings	25,895	10,915

The following table reconciles the basic weighted average number of units outstanding to the diluted weighted average number of units outstanding:

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Weighted average number of:		
Units outstanding – basic	11,543,532	11,000,000
LTIP awards	4,344	-
Exchangeable GENIVAR LP units (note 13)	8,087,622	7,927,381
	<hr/>	<hr/>
Diluted weighted average number of units outstanding (note 3)	19,635,498	18,927,381

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16 Distributions to unitholders

The Fund has committed to distributing to its unitholders all or virtually all of its taxable income and taxable capital gains.

The Fund makes distributions on a monthly basis to unitholders of record as of the last business day of each month with distributions being paid on or about the fifteenth day, if such day is not a business day, following the end of each month.

In December 2007, the Fund paid a one-time special distribution of \$0.30 per unit.

17 Long-Term Incentive Plan ("LTIP")

The officers and key employees are eligible to participate in GENIVAR LP's LTIP. The purpose of the LTIP is to reward officers and key employees for significant performance and associated per unit cash flows growth of the Fund. Pursuant to the LTIP, GENIVAR LP will set aside a pool of funds based upon the amount, if any, by which the Fund's per unit distributions exceed certain defined per unit distributable cash threshold amounts.

The LTIP Administrator approved by the board of directors of GENIVAR GP will purchase units in the market with this pool of funds and will hold the units until such time as ownership vests in each participant. Generally, one-third of these units will vest equally over the three years following the grant of the awards. The LTIP administrator will remit any distributions on units acquired pursuant to the LTIP to GENIVAR LP. GENIVAR LP may, as its sole and entire discretion, contribute an amount equivalent to part or all of the amount received from the LTIP administrator to the LTIP administrator who will then apply such amounts to purchase additional units. Additional units shall vest on the same date as the units to which they relate. For the year ended December 31, 2007, all distributions not vested were reinvested in units. Unvested units held by the Administrator for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those units will be sold and the proceeds returned to GENIVAR LP.

The board of directors of GENIVAR GP or any other authorized committee will have the power to, among other things (i) determine those individuals who will participate in the LTIP, (ii) determine the level of participation of each participant, and (iii) determine the time or times when LTIP awards will vest or be paid to each participant.

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Initially, the LTIP will provide for awards that may be earned based on the amount by which Distributable Cash per annum per unit (calculated on a fully-diluted basis) exceeds a base threshold per unit per annum. The percentage amount of that excess will be determined in accordance with the table below:

Percentage by which Distributable Cash per unit Exceeds the Base Threshold ⁽¹⁾	Maximum Proportion of Distributable Cash Available for LTIP Payments
5% or less	10% of any excess up to 5%
Over 5% to 10%	10% of the first 5% and 15% of any excess over 5% but not exceeding 10%
Greater than 10%	10% of the first 5% and 15% of any excess over 5% but not exceeding 10% and 20% of any excess over 10%

⁽¹⁾ Annualized for fiscal periods of less than twelve months.

Until December 31, 2008, the base threshold will be \$1.00 per unit. After December 31, 2008, the board of directors of GENIVAR GP or any authorized committee will review and assess the base threshold.

On March 12, 2007, the board of directors of GENIVAR GP and the Fund trustees approved, pursuant to the LTIP, the purchase of units in the market.

In June 2007, the Fund created a trust (the LTIP Administrator) to hold units, which is considered to be a variable interest entity (note 3). In June 2007, an amount of \$825 was disbursed for the purchase of 46,142 units in the market under the LTIP, and an equivalent number of LTIP units was granted to officers and key employees of the Fund. The cost of units acquired has been accounted for as a reduction of Fund units (note 14).

Since compensation costs are recognized over the vesting period, an amount of \$275 has been recorded as compensation costs for the year ended December 31, 2007 (nil for the period from May 25, to December 31, 2006).

As at December 31, 2007, one-third of the units have vested as well as the distributions on these units (note 14).

18 Net interest expense

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Interest on bank advances	1,199	194
Interest on advances payable to the non-controlling unitholder	452	282
Interest income	(123)	(72)
	<hr/>	<hr/>
	1,528	404

GENIVAR Income Fund

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

19 Income taxes

The reconciliation of the income tax expense with the income tax expense per the consolidated financial statements is as follows:

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Earnings before income tax expense and non-controlling interest	26,929	10,704
Fund's earnings not subject to income taxes	(25,132)	(10,885)
	<u>1,797</u>	<u>(181)</u>
Combined Canadian federal and provincial statutory tax rate	35.28%	36.12%
Income taxes based on statutory income tax rates	634	(65)
Implementation of the SIFT Rules *	582	-
Non-deductible expenses	62	6
Foreign tax rate differences	(51)	(29)
Effect of change in tax rate	(211)	(76)
Other	18	(47)
	<u>1,034</u>	<u>(211)</u>
Current	522	121
Future	512	(332)
	<u>1,034</u>	<u>(211)</u>

* To calculate the adjustment required on future income taxes since the application of the new fiscal rules (notes 2 and 3), the Fund forecasted the changes in its tax attributes between December 31, 2007, and December 31, 2010. This calculation also takes into account the temporary differences attributable to the non-controlling interest. These forecasts will be updated quarterly and any change will be reflected in net earnings.

The tax rate used is the tax rate that is substantively enacted to be in effect for 2011 (29.50%). For the year ended December 31, 2007, the Fund recognized an amount of \$428 as future income tax liabilities and recorded \$ 582 as a charge to income tax expense and \$154 as a reduction of issuance-related costs as a result of the implementation of the SIFT rules.

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As at December 31, 2007 and 2006, the significant components of future income tax assets and liabilities are as follows:

	2007	2006
	\$	\$
Future income tax assets		
Deductible provision upon settlement	130	117
Cumulative eligible capital deduction	152	4
Non-capital losses	227	558
Deferred issuance-related costs	270	-
Future income tax liabilities		
Costs and anticipated profits in excess of billings	(768)	(807)
Holdbacks	(448)	-
Property, plant and equipment and software	(843)	(161)
Intangible assets except software	(1,502)	(2,135)
	<hr/>	<hr/>
Future income taxes, net	(2,782)	(2,424)
	<hr/>	<hr/>
Classified as:		
Current future income tax liabilities	(859)	(690)
Long-term future income tax liabilities	(1,923)	(1,734)
	<hr/>	<hr/>
	(2,782)	(2,424)
	<hr/>	<hr/>

As at December 31, 2007 and 2006, a Fund's subsidiary has accumulated non-capital losses totaling \$673 and \$1,631. These losses, which can be carried forward in the future, will expire as follows:

	2007	2006
Expiry date	\$	\$
2022	-	21
2023	-	91
2024	-	1
2025	673	1,518

The tax attributes of GENIVAR LP and a non-taxable GENIVAR LP's subsidiary are transferred to the Fund unitholders and, accordingly, are not recognized in these consolidated financial statements. As at December 31, 2007, the carrying amounts of the assets owned by GENIVAR LP and a non-taxable GENIVAR LP's subsidiary, which create temporary differences, exceeded their tax basis by \$6,131 (\$6,354 in 2006).

GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

20 Statement of cash flows

(a) Change in non-cash working capital items

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Decrease (increase) in:		
Accounts receivable	(16,767)	(7,687)
Income taxes receivable	22	72
Costs and anticipated profits in excess of billings	(6,837)	547
Prepaid expenses	419	614
Increase (decrease) in:		
Accounts payable and accrued liabilities	7,849	358
Income taxes payable	69	(279)
Billings in excess of costs and anticipated profits	6,784	2,488
	<u>(8,461)</u>	<u>(3,887)</u>

(b) Operating and investing activities not affecting cash and cash equivalents

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Accounts payable and accrued liabilities for additions to property, plant and equipment	547	982
Accounts payable and accrued liabilities for acquisition of software	466	270

GENIVAR Income Fund

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21 Related party transactions

The Fund entered into the following transactions with related parties:

	For the year ended December 31, 2007 \$	Period from May 25, to December 31, 2006 \$
Non-controlling unitholder		
Marketing, general and administrative expenses	132	99
Net interest expense	452	282
Companies controlled by the non-controlling unitholder		
Revenues	3,082	2,137
Costs	503	355
Additions to property, plant and equipment	1,622	-
Marketing, general and administrative expenses	96	150

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Business acquisitions

The Fund enters into transactions with GENIVAR inc., the non-controlling unitholder, in connection with certain business acquisitions. Generally, GENIVAR inc. acquires all the outstanding shares of a company and sells the net assets of the acquired company to GENIVAR LP or one of its subsidiaries. The purchase price for GENIVAR LP or one of its subsidiaries is identical to the shares' purchase price paid by GENIVAR inc., taking into account certain assets or liabilities that are not or cannot be transferred, which price has been concluded with unrelated parties. The Fund acquired GLD, NOVE, NCE, SEG, Harmer, TERRA, ASA, VIZ, BHM, TL, RFA, and Phoenix (Martoni in 2006) in this manner (notes 4 and 26).

The amounts due from (and to) related parties have arisen from the transactions referred to above.

22 Financial instruments

Fair value

Cash and cash equivalents, cash held in trust, accounts receivable, costs and anticipated profits in excess of billings, advances to companies controlled by the non-controlling unitholder, accounts payable and accrued liabilities, balances of purchase prices payable, advances payable to the non-controlling unitholder, billings in excess of costs and anticipated profits, distributions payable to unitholders and bank advances are financial instruments whose fair values approximate their carrying value due to their short-term maturity or to variable interest rates.

GENIVAR Income Fund

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Credit risk

The Fund's cash and cash equivalents are held with or issued by high-credit quality financial institutions. Therefore, the Fund considers the risk of non-performance on these instruments to be remote.

Financial instruments which potentially subject the Fund to significant credit risk consist principally of accounts receivable.

The distribution of the Fund's customers and the business risk management procedures have the effect of avoiding any concentration of credit risk.

Generally, the Fund does not require collateral or other security from customers for trade accounts receivable; however, credit is extended following an evaluation of creditworthiness. In addition, the Fund performs on-going credit reviews of all its customers and establishes an allowance for doubtful accounts when accounts are determined to be uncollectible.

Interest risk

As at December 31, 2007 and 2006, the Fund's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Cash held in trust	Variable interest rate
Accounts receivable	Non-interest bearing
Costs and anticipated profits in excess of billings	Non-interest bearing
Advances to companies controlled by the non-controlling unitholder	Prime rate
Accounts payable and accrued liabilities	Non-interest bearing
Balances of purchase prices payable	As described in note 12
Advances payable to the non-controlling unitholder	Prime rate
Billings in excess of costs and anticipated profits	Non-interest bearing
Distributions payable to unitholders	Non-interest bearing
Bank advances	As described in note 10

GENIVAR Income Fund

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Currency risk

The Fund is exposed to currency risks, as transactions with customers outside Canada are predominantly denominated in US dollars and TT dollars. These risks are partially offset by purchases and operating expenses incurred in US dollars and TT dollars. As at December 31, 2007 and 2006, the balances denominated in US dollars and TT dollars are as follows:

	2007		2006	
	US\$ converted into CAN\$	TT dollars converted into CAN\$	US\$ converted into CAN\$	TT dollars converted into CAN\$
Cash and cash equivalents	4,183	638	937	919
Accounts receivable	2,249	5,163	863	2,950
Costs and anticipated profits in excess of billings	161	1,551	65	1,157
Accounts payable and accrued liabilities	625	831	162	658
Billings in excess of costs and anticipated profits	1,863	4,931	1,076	2,390

Foreign exchange risk

Since the Fund operates outside Canada, it is exposed to currency risks as a result of potential exchange rate fluctuations, mainly in Trinidad and Tobago.

In order to reduce the potential negative impact of fluctuations in the Canadian dollar, the Fund entered into foreign currency forward options and contracts to cover future sales anticipated in US dollars. Pursuant to these foreign currency forward options and contracts, the Fund is required to sell US dollars at a predetermined rate.

As at December 31, 2007, the Fund held foreign currency forward options to exchange, during the next eleven months, US\$250 each month at a rate of CAN\$0.984/US\$1. If the exchange rate reaches CAN\$1.04/US\$1 before the expiration date of the foreign currency forward options, all the foreign currency forward options not expired must be exercised before the expiration date. These foreign currency forward options, whose unrealized loss amounts to \$11, have been classified as liabilities (note 11).

As at December 31, 2006, the Fund held foreign currency forward contracts to exchange, during the next five months, US\$1,250 at an average of CAN\$1.09/US\$1. These foreign currency forward contracts, whose unrealized loss amounts to \$90, have been classified as liabilities (note 11).

GENIVAR Income Fund

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(in thousands of dollars, except the number of units and per unit data and unless otherwise stated)

23 Commitments and contingencies

The Fund is bound by lease commitments for office premises and equipment. Minimum payments required during the next five fiscal years ending December 31 and thereafter, amount to \$7,772 in 2008, \$6,890 in 2009, \$5,774 in 2010, \$5,395 in 2011, \$4,650 in 2012, and \$17,336 thereafter.

The Fund is currently facing legal proceedings for work carried out in the normal course of its business. Management believes that most of the claims are unfounded. The Fund takes out a professional liability insurance policy in order to hedge against such proceedings. Based on advice and information provided by its legal advisors and on its experience of the settlement of similar proceedings, management believes that the Fund has accounted for sufficient provisions in that regard and that the final settlement should not exceed the insurance coverage significantly or should not have a material effect on the financial position or operating results of the Fund.

24 Employee future benefits

The Fund participates in defined contribution retirement savings plans. Pursuant to these plans, the Fund pays a contribution equivalent to the employee contribution up to a maximum varying from 2% to 5% of the employee's salary. An employee acquires the whole employer contributions after two years of continuous service or if he loses his job due to a layoff resulting from a lack of work. The Fund's portion of the contributions, net of repayments received following the departure of employees having non-vested contributions, amounts to \$1,212 for the year ended December 31, 2007, and \$488 for the period from May 25, to December 31, 2006.

25 Segment information

(a) Major customers

As at December 31, 2007, no customers represented more than 10% of the Fund's consolidated revenues. During the period from May 25, to December 31, 2006, one customer represents 10% of the Fund's consolidated revenues.

(b) Geographic areas

Since the expansion of its Ontario and Western Canada's operations in 2007, the Fund is organized into geographic areas. Market segments continue to be analyzed by the Fund's management in certain geographic areas but not in all of them. Accordingly, the Fund revised its segments and defined them as the following geographic areas: Quebec, Ontario, Western Canada, and International.

GENIVAR Income Fund

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The geographic areas provide the same nature of services and serve similar clients in similar industries. Each of them provides its clients with the same complete range of specialized services, viewed as convergent disciplines by the Fund's management: building, urban infrastructures, transportation, industrial and power and environment. The Canadian operations present similar long-term financial performance and the same long-term economic conditions and characteristics, and account for more than 95% of all revenues. Each geographic areas has comparable operating margins. Therefore, given these similarities, the Fund's management aggregates its geographic areas into one reporting segment.

26 Subsequent event

In January and February 2008, the Fund acquired all the assets and liabilities of Transenco Limited ("TL"), RFA Consulting Electrical Engineers Inc ("RFA"), Phoenix Engineering Inc. ("Phoenix"), and EXH Engineering Services Ltd. ("EXH"), four Canadian engineering firms for a total consideration of \$44,085.