



**GENIVAR**  
*constructive people*



*Consolidated Financial Statements*

# GENIVAR Income Fund

*December 31, 2006*



March 12, 2007

## **Auditors' Report**

### **To the Unitholders of GENIVAR Income Fund**

We have audited the consolidated balance sheet of **GENIVAR Income Fund** as at December 31, 2006 and the consolidated statements of earnings, deficit and cash flows for the period from May 25, to December 31, 2006. These consolidated 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 audit.

We conducted our audit 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, 2006 and the results of its operations and its cash flows for the period from May 25, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

# GENIVAR Income Fund

## Consolidated Balance Sheet

As at December 31, 2006

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(in thousands of dollars)

	\$
<b>Assets</b>	
<b>Current assets</b>	
Cash	3,986
Cash held in trust (note 23)	4,200
Accounts receivable (notes 5 and 8)	51,445
Income taxes receivable	87
Costs and anticipated profits in excess of billings (note 8)	17,910
Advances to companies controlled by the non-controlling unitholder	105
Prepaid expenses	708
	<hr/>
	78,441
<b>Property, plant and equipment</b> (notes 6 and 23)	12,126
<b>Intangible assets</b> (note 7)	41,834
<b>Goodwill</b> (note 3)	116,437
	<hr/>
	248,838
<b>Liabilities</b>	
<b>Current liabilities</b>	
Bank advances (note 8)	6,957
Accounts payable and accrued liabilities (note 9)	28,585
Advances payable to the non-controlling unitholder	8,763
Income taxes payable	166
Billings in excess of costs and anticipated profits	10,783
Future income tax liabilities (note 16)	690
Distributions payable to unitholders (note 13)	2,365
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	58,309
<b>Future income tax liabilities</b> (note 16)	1,734
<b>Non-controlling interest</b> (note 10)	79,073
	<hr/>
	139,116
<b>Unitholders' Equity</b>	
<b>Fund units</b> (note 11)	110,000
<b>Deficit</b>	(278)
	<hr/>
	109,722
	<hr/>
	248,838
<b>Commitments and contingencies</b> (notes 6 and 20)	
<b>Subsequent events</b> (note 23)	

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

Approved by the Trustees

(2)

(signed) Pierre Shoiry \_\_\_\_\_ Trustee

(signed) Pierre Seccareccia \_\_\_\_\_ Trustee

**GENIVAR Income Fund**  
Consolidated Statement of Deficit  
For the period from May 25, to December 31, 2006

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(in thousands of dollars)

	\$
<b>Balance as at May 25, 2006</b>	-
Net earnings for the period	6,344
Declared distributions to unitholders (note 13)	<u>(6,622)</u>
<b>Balance as at December 31, 2006</b>	<u>( 278)</u>

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

# GENIVAR Income Fund

## Consolidated Statement of Earnings

For the period from May 25, to December 31, 2006

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

	\$
<b>Revenues</b>	109,781
<b>Costs</b>	<u>68,876</u>
<b>Gross margin</b>	<u>40,905</u>
<b>Expenses</b>	
Marketing, general and administrative	23,063
Depreciation of property, plant and equipment	1,245
Amortization of intangible assets	5,391
Net interest expense (note 15)	404
Exchange loss	<u>98</u>
	<u>30,201</u>
<b>Earnings before income tax recovery and non-controlling interest</b>	10,704
<b>Income tax recovery</b> (note 16)	<u>211</u>
<b>Earnings before non-controlling interest</b>	10,915
<b>Non-controlling interest</b> (note 10)	<u>(4,571)</u>
<b>Net earnings for the period</b>	<u>6,344</u>
Basic net earnings per unit	0.58
Weighted average number of units (note 12)	11,000,000
Diluted net earnings per unit	0.58
Diluted weighted average number of units (note 12)	18,927,381

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

# GENIVAR Income Fund

## Consolidated Statement of Cash Flows

For the period from May 25, to December 31, 2006

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(in thousands of dollars)

	\$
<b>Cash flows from operating activities</b>	
Net earnings for the period	6,344
Items not affecting cash	
Depreciation and amortization	6,636
Future income taxes	(332)
Non-controlling interest	4,571
	<u>17,219</u>
Change in non-cash working capital items (note 17a)	<u>(3,887)</u>
	<u>13,332</u>
<b>Cash flows from financing activities</b>	
Bank advances contracted	4,148
Increase in advances to the non-controlling unitholder	1,310
Repayment of note payable (note 3)	(62,768)
Issuance of units	110,000
Redemption of units from the non-controlling unitholder	(10,000)
Distributions paid to unitholders	(5,705)
Distributions paid to the non-controlling unitholder	(3,324)
	<u>33,661</u>
<b>Cash flows from investing activities</b>	
Business acquisition, less net cash acquired (note 3)	(37,171)
Advances to companies controlled by the non-controlling unitholder	(105)
Additions to property, plant and equipment (note 17b)	(1,323)
Proceeds from disposal of property, plant and equipment	52
Acquisition of software (note 17b)	(260)
	<u>(38,807)</u>
<b>Increase in cash</b>	8,186
<b>Cash as at May 25, 2006</b>	<u>-</u>
<b>Cash as at December 31, 2006 *</b>	<u>8,186</u>
<b>Additional information</b> (note 17b)	
Interest paid	194
Interest received	(41)
Income taxes paid	327

\* Cash as at December 31, 2006 consists of cash 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, 2006

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(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 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, the general partner of GENIVAR LP.

GENIVAR LP and its subsidiaries, GENIVAR Ontario Inc., Genivar (Trinidad Tobago) Ltd. and GENIVAR Consultants Limited Partnership offer 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.

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. Transaction-related costs were paid by GENIVAR SEC.

The Fund has indirectly acquired, through the Trust, 11,000 000 Class A LP units of GENIVAR LP representing a 58.12% interest.

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

### 2 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 LP and its subsidiaries.

The Fund conducts certain projects 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.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

All significant intercompany transactions and balances have been eliminated. The Fund does not own any interests in variable interest entities.

### 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.

### 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.

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 a deposit on a contract received in advance (note 9).

### 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%
Computer equipment	Declining balance	30%
Automotive equipment	Declining balance	30%

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 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	10 and 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.

### 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.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### **Income taxes**

Under the terms of the *Income Tax Act (Canada)*, the Fund is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a unitholder. Accordingly, no provision for current income taxes for the Fund is made. In addition, the Fund is not subject to the recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, Income Taxes regarding future income tax recognition, as the Fund is 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 Fund intends to continue to meet the requirements under the *Income Tax Act (Canada)* applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

On December 21, 2006, Canada's Minister of Finance released draft legislative proposals to implement a tax on distributions from publicly traded income trusts and partnerships. In that regard, the government proposed a four-year transition period for existing income trusts and partnerships until their 2011 taxation year. The impact for the Fund cannot be determined yet but it might be significant should the bill be passed.

Two Fund's operating subsidiaries are subject to CICA Handbook Section 3465 and to corporate income taxes as computed under the prescribed legislation.

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.

### **Earnings per unit**

Earnings per unit are calculated by dividing net earnings by the weighted average number of units outstanding during the period. For the purposes of the weighted average number of units outstanding, units are determined to be outstanding from the date they are issued.

### **Foreign currency forward contracts**

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

# GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2006

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

## 3 Business acquisitions

During the period, the Fund made the following business acquisitions:

- (i) 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 exchangeable LP units and 4,731,845 subordinated LP units having respective values of \$41,955 and \$47,319 (note 10).
- (ii) On December 1, 2006, GENIVAR LP acquired all of the assets and liabilities of Martoni, Cyr & Associates ("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.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

The purchase price allocation of GENIVAR shown below is based on an independent valuation report. The purchase price allocation of Martoni is preliminary but the Fund does not anticipate any significant changes in the final purchase price allocation.

	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			
Bank advances	(2,791)	(18)	(2,809)
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>(44,230)</u>	<u>(1,747)</u>	<u>(45,977)</u>
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
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 10)	(89,274)	-	(89,274)
Net cash used for the acquisitions	<u>33,171</u>	<u>4,000</u>	<u>37,171</u>

These 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.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 4 Investments in joint ventures

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:

	\$
<b>Statements of earnings</b>	
Revenues	15,612
Costs	<u>11,180</u>
Gross margin	<u>4,432</u>
<b>Statements of cash flows</b>	
Cash flows provided from operating activities	<u>2,751</u>
<b>Current assets</b>	
Cash	2,242
Accounts receivable	6,942
Costs and anticipated profits in excess of billings	<u>2,043</u>
<b>Total assets</b>	<u>11,227</u>
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	4,252
Billings in excess of costs and anticipated profits	1,980
Advances to the non-controlling unitholder	<u>2,881</u>
<b>Total liabilities</b>	<u>9,113</u>

### 5 Accounts receivable

	\$
Trade receivables *	50,486
Companies controlled by the non-controlling unitholder	<u>959</u>
	<u>51,445</u>

\* Trade receivables include holdbacks amounting to \$1,275.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 6 Property, plant and equipment

	Cost \$	Accumulated depreciation \$	Net 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
	<hr/>	<hr/>	<hr/>
	13,371	1,245	12,126

The building under construction consists of the expansion of an existing building for which the total cost is estimated at \$2,600.

### 7 Intangible assets

	Cost \$	Accumulated amortization \$	Net 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
	<hr/>	<hr/>	<hr/>
	47,225	5,391	41,834

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

# GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2006

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

## 8 Credit facilities

The Fund has credit facilities totalling \$42,100 allocated as follows:

### *Term facility*

Term facility of \$40,000 for general corporate purposes, to allow for the financing of acquisitions and the payment of distributions to unitholders, the use of the credit facility for the payment of distributions to unitholders being limited to a maximum amount of \$5,000. This credit facility has a three-year term and matures in May 2009. The term of the facility can be extended for one additional one-year period, subject to the prior approval of the lender. The credit facility is fully repayable at maturity without any prepayment penalties, except for banker's acceptances and LIBOR advances.

### *Treasury facility*

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

### *Credit card*

Corporate credit card in the amount of \$100.

These credit facilities are secured by a first hypothec over the universality of movable assets and bear interest at prime rate, U.S. 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, tax, depreciation and amortization ratio, as defined in the credit agreement.

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

As of December 31, 2006, the Fund issued, in the normal course of business, irrevocable letters of credit totalling \$253 for its own commitments, thus decreasing such available credit facilities.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 9 Accounts payable and accrued liabilities

	\$
Trade payables and accrued liabilities	27,299
Companies controlled by the non-controlling unitholder	1,083
Deferred revenue	113
Fair value of foreign currency forward contracts (note 19)	90
	<u>28,585</u>

### 10 Non-controlling interest

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

	<u>Non-Subordinated Exchangeable LP Units</u>		<u>Subordinated LP Units</u>		<u>Total</u>
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>	<u>\$</u>
Units issued pursuant to the business acquisition (note 3)	4,195,536	41,955	4,731,845	47,319	89,274
Units disposed of upon exercise of over-allotment option	(1,000,000)	(10,000)	-	-	(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	<u>3,195,536</u>	<u>31,874</u>	<u>4,731,845</u>	<u>47,199</u>	<u>79,073</u>

The Non-Subordinated Exchangeable LP Units and Subordinated LP Units are economically equivalent to Class A LP Units held by the Trust, except that distributions on Subordinated LP Units will be made only at the end of the quarter provided that GENIVAR LP has made a monthly distribution 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 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 LP Units may also be exchanged for Units before the Subordination End Date in certain specified circumstances.

As at December 31, 2006, an amount of \$1,449 has been accounted for as distributions payable to unitholders.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 11 Unitholders' Equity

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 by the holder at any time for an amount related to the quoted market price, cash redemptions being limited to \$50 per month.

Issued and paid

	<u>Units</u>	
	<b>Number</b>	<b>\$</b>
Balance as at May 25, 2006	10	-
Issuance of units pursuant to the IPO	10,000,000	100,000
Over-allotment	1,000,000	10,000
Redemption of units	(10)	-
	<hr/>	<hr/>
Balance as at December 31, 2006	<u>11,000,000</u>	<u>110,000</u>

#### *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.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

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 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 LP Units (or other exchangeable securities) to which they relate. Conversely, the Special Voting Units will automatically be transferred upon a transfer of the associated Non-Subordinated Exchangeable LP Units or Subordinated 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 Non-Subordinated Exchangeable LP Units or Subordinated 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 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 LP Unit issued by GENIVAR LP. As at December 31, 2006, 7,927,381 Special Voting Units are outstanding and are classified as non-controlling interest.

## 12 Earnings per unit

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

	\$
Basic net earnings	6,344
Non-controlling interest	4,571
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Diluted net earnings	10,915
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The following table reconciles the basic weighted average number of units outstanding to the diluted weighted average number of units outstanding:

Weighted average number of:	
Units	11,000,000
GENIVAR LP Units	7,927,381
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Diluted weighted average number of units outstanding	18,927,381
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# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 13 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 the 15th day following the end of each month.

### 14 Long-Term Incentive Plan ("LTIP")

The officers and key employees of GENIVAR 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. GENIVAR LP or director of GENIVAR GP Inc. ("the GP Director") appointed to administer the LTIP 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. LTIP participants will be entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the GP Director 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 Inc. 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.

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:

<b>Percentage by which Distributable Cash per Unit Exceeds the Base Threshold <sup>(1)</sup></b>	<b>Maximum Proportion of Distributable Cash Available for LTIP Payments</b>
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%

<sup>(1)</sup> 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 Inc. or any other authorized committee will review and assess the base threshold.

# GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2006

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

## 15 Net interest expense

	\$
Interest on bank advances	194
Interest on advances payable to the non-controlling unitholder	282
Interest income	<u>(72)</u>
	<u>404</u>

## 16 Income taxes

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

	\$
Earnings before income tax recovery	10,704
Fund's earnings not subject to income taxes	<u>(10,885)</u>
	<u>( 181)</u>
Combined Canadian federal and provincial statutory tax rate	36.12%
Income taxes based on statutory income tax rates	(65)
Non-deductible expenses	6
Foreign tax rate differences	(29)
Effect of change in tax rate	(76)
Other	<u>(47)</u>
	<u>( 211)</u>
Current	121
Future	<u>(332)</u>
	<u>( 211)</u>

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

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

	\$
Future income tax assets	
Deductible provision upon settlement	117
Cumulative eligible capital deduction	4
Non-capital losses	558
Future income tax liabilities	
Costs and anticipated profits in excess of billings	(807)
Property, plant and equipment and software	(161)
Customer relationships and contract backlogs	<u>(2,135)</u>
Future income taxes, net	<u>(2,424)</u>
Classified as:	
Current future income tax liabilities	(690)
Long-term future income tax liabilities	<u>(1,734)</u>
	<u>(2,424)</u>

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

Expiry date	\$
2022	21
2023	91
2024	1
2025	1,518

GENIVAR LP's taxable earnings will be taxable in the hands of LP unitholders. The effect of temporary tax differences of taxable subsidiaries is reflected in these consolidated financial statements. GENIVAR LP's net deductible temporary differences amount to \$22,967, which are not recognized in these consolidated financial statements.

# GENIVAR Income Fund

Notes to Consolidated Financial Statements

December 31, 2006

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

## 17 Statement of cash flows

(a) Change in non-cash working capital items

	\$
Accounts receivable	(7,687)
Income taxes receivable	72
Costs and anticipated profits in excess of billings	547
Prepaid expenses	614
Accounts payable and accrued liabilities	358
Income taxes payable	(279)
Billings in excess of costs and anticipated profits	2,488
	<hr/>
	(3,887)
	<hr/>

(b) Operating and investing activities not affecting cash

Accounts payable of \$982 for additions to property, plant and equipment and of \$270 for acquisitions of software.

## 18 Related party transactions

During the period, the Fund entered into the following transactions with related parties:

	\$
Companies controlled by the non-controlling unitholder	
Revenues	2,137
Costs	355
Marketing, general and administrative expenses	150
Non-controlling unitholder	
Marketing, general and administrative expenses	99
Net interest expense	282

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.

At the end of the period, the amounts due from and (to) related parties have arisen from the transactions referred to above.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 19 Financial instruments

#### Fair value

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

#### Credit risk

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, 2006, the Fund's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Cash held in trust	Variable interest rate
Accounts receivable	Non-interest bearing
Advances to companies controlled by the non-controlling unitholder	Prime rate
Bank advances	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Advances payable to the non-controlling unitholder	Prime rate
Distributions payable to unitholders	Non-interest bearing

#### 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.

# **GENIVAR Income Fund**

## Notes to Consolidated Financial Statements

**December 31, 2006**

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

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

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 rate of CAN\$1.09/US\$1. These foreign currency forward contracts, whose fair value amounts to \$90, have been classified as liabilities (note 9).

### **20 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 \$4,698 in 2007, \$3,092 in 2008, \$2,472 in 2009, \$2,390 in 2010, \$2,295 in 2011 and \$6,176 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.

### **21 Employee future benefits**

The Fund participates in a defined contribution retirement savings plan. Pursuant to this plan, the Fund pays a contribution equivalent to the employee contribution up to a maximum of 2% of the employee 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 \$488 for the period from May 25, to December 31, 2006.

# GENIVAR Income Fund

## Notes to Consolidated Financial Statements

December 31, 2006

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

### 22 Segment information

(a) Major customers

During the period from May 25, to December 31, 2006, one customer represents 10% of the Fund's consolidated revenues. Our economic dependence on this customer is reduced by the fact that the latter consists of numerous decision units, each of which being responsible for awarding a portion of such customer's contracts.

(b) Market segments

The Fund is organized into market segments, which 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 infrastructure, transportation, industrial and power and environment. Each market segment presents similar long-term financial performance and the same long-term economic conditions and characteristics. Each of them has comparable operating margins. Therefore, given these similarities, the Fund's management aggregates its market segments into one reporting segment.

### 23 Subsequent events

On May 30, 2006, the Fund accepted an offer to sell a building, which was concluded on February 7, 2007. The Fund's building was sold at its net carrying value for a cash consideration of \$448.

On December 20, 2006, the Fund entered into an agreement, effective on January 1, 2007, providing for the acquisition of certain assets of Cochrane Design Group ("CDG"), a Western Canada-based engineering consulting firm, for a consideration of \$4,700 settled as follows: a cash amount of \$4,200 and the issuance of a note payable to the vendors in the amount of \$500.

On January 9, 2007, the Fund entered into an agreement, effective on January 1, 2007, providing for the acquisition of certain assets of Kazmar Associates ("Kazmar"), an Ontario-based engineering consulting firm, for a consideration of \$2,100 settled as follows: a cash amount of \$1,800 and a balance of purchase price of \$300.

On February 22, 2007, the Fund entered into an agreement, effective on February 24, 2007, providing for the acquisition of all assets and liabilities of Groupe G.L.D. inc. ("GLD"), a Quebec-based engineering consulting firm previously owned by GENIVAR inc., for a cash amount of \$4,000. On the same day, GENIVAR inc. had acquired all the outstanding shares of GLD for a consideration of \$4,000.

On March 12, 2007, the board of directors of GENIVAR GP inc. and the trustees of the Fund approved, in relation to the LTIP, the purchase of units on the market for an amount totalling \$829 (note 14).