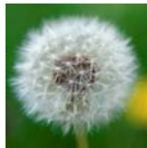
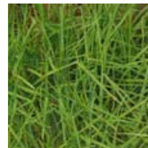
Morneau Sobeco Income Fund



2009 Second Quarter Results



MORNEAU SOBECO
Morneau Sobeco Income Fund

Fresh thinking.
Innovative solutions.

August 12, 2009

To Our Unitholders

Morneau Sobeco Income Fund (the "Fund") is pleased to present its financial results for the period ended June 30, 2009. These results reflect positive performance of the Fund's operating business for the second quarter.

Revenue in second quarter 2009 grew by 62.1%, or $32.5 million to $84.9 million. This compares to $52.4 million for the second quarter of 2008, primarily reflecting the contributions of the 2008 acquisitions of Shepell•fgi and Leong & Associates. Standardized EBITDA for the period increased by $5.5 million, or 52.5% to $16.0 million, compared to $10.5 million for the same period last year. Standardized EBITDA margin was 18.8%, and Standardized EBITDA per Unit (basic) increased by 2% to $0.336, compared to $0.329 in the second quarter 2008.

Net income was $3.3 million for the second quarter 2009, compared to $2.5 million for the same period in 2008.

The organization is pleased with the continuing success of the Shepell•fgi integration. Our EAP utilization, which grew at an unusually high pace in the first quarter, returned within our expected growth range, with EAP revenue growing by 6.8%, compared to the 2008 second quarter, while our organic pension consulting revenue growth of 15.3% continued to reflect strong market demand.

Adjusted Consolidated Distributable Cash grew by $1.7 million to $11.4 million or $0.240 per Unit (basic) which compares to $9.7 million or $0.305 per Unit (basic) in 2008. The Adjusted Consolidated Distributable Cash Payout Ratio was 98.4%, compared to 75.0% for the same period in 2008 and the corresponding 12-month rolling payout ratio is 87.3%, compared to 82.9% for the second quarter of last year.

The strong revenue growth, combined with the increase in receivables due to the seasonal nature of the Shepell•fgi business, together with the timing of the annual bonus payments, resulted in Standardized Distributable Cash for the 2009 second quarter of $45,000 or $0.001 per Unit (basic), compared to $8.2 million or $0.310 per Unit (basic) for the same period in 2008. Similarly, Cash from Operations for the quarter was $1.6 million, compared to $10.5 million for the second quarter of 2008. The 12-month rolling Standardized Distributable Cash Payout Ratio is 140.9%, compared to 87.0% for the same period in 2008, which primarily reflects the Shepell•fgi EAP case volume and the associated payments for the services, which will be invoiced to customers in future quarters.

We continue to see solid growth in EAP, pension consulting and pandemic management services. Notwithstanding this growth, the current economic environment is resulting in a lengthening of the purchase cycle in some areas of our business, as some clients delay their decision-making. As well, we expect our consulting services to show the typical seasonal softness during the summer months as we have experienced in prior years.

We are positive about our prospects for 2009 and our ability to deliver solid value to our Unitholders as we move into the last half of the year.

On behalf of the Board of Trustees and management team at Morneau Sobeco Income Fund, I thank you for your continued support.

Yours truly,

WILLIAM MORNEAU
Chairman &Chief Executive Officer

HIGHLIGHTS

STRONG FINANCIAL RESULTS
FOR THE SECOND QUARTER

RESULTS HIGHLIGHT CONSISTENT
PERFORMANCE AND CONTINUED GROWTH

MORNEAU SOBECO INCOME FUND

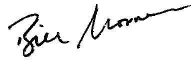
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

	As at June 30, 2009	As at December 31, 2008
Assets		
Current assets:		
Accounts receivable	$ 58,955	$ 52,930
Unbilled fees	16,868	15,861
Income taxes recoverable	1,507	1,484
Prepaid expense and other	3,310	5,482
	80,640	75,757
Future income taxes	10,775	7,740
Capital assets	18,087	17,267
Intangible assets	268,669	289,425
Goodwill	299,676	299,676
	$677,847	$689,865
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness	$ 6,807	$ 504
Accounts payable and accrued liabilities	31,620	40,033
Deferred revenue	3,111	2,245
Current portion of long-term debt (note 3)	15,000	7,000
Current portion of promissory note (note 4)	--	31,632
Future consideration related to acquisition	684	684
Unitholder distributions payable (including non-controlling)	3,758	3,233
	60,980	85,331
Insurance premium liabilities:		
Payable to insurance companies	8,141	12,037
Less related cash and investments held	(8,141)	(12,037)
	--	--
Long-term debt (note 3)	158,652	135,418
Promissory notes (note 4)	4,110	43,917
Interest-rate swaps and foreign exchange contracts	7,924	11,917
Future considerations related to acquisition	1,587	1,727
Other liabilities	8,696	8,611
Future income taxes	28,832	33,090
	270,781	320,011
Non-controlling interests (note 6)	48,675	51,724
Unitholders' equity	358,391	318,130
	$677,847	$689,865

Commitments and contingencies (notes 10 and 11)
Economic dependence (note 12)



Robert Chisholm
Trustee,
Audit Committee Chair

William Morneau
Trustee,
Chairman and CEO

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)
(In thousands of dollars, except per unit amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenue				
Fees	$ 80,110	$ 47,433	$ 157,738	$ 81,596
Commissions	4,650	4,790	8,740	9,606
Other	143	140	181	295
	84,903	52,363	166,659	91,497
Expenses				
Salary, benefit and contractor expenses	54,854	32,428	108,701	56,765
Other operating	14,062	9,449	29,635	15,857
Amortization of capital assets	1,156	1,015	2,189	1,675
Amortization of intangible assets	10,316	5,931	20,632	9,574
Interest expense (note 3)	2,997	1,915	7,960	3,006
	83,385	50,738	169,117	86,877
Income (loss) before income taxes and non-controlling interest	1,518	1,625	(2,458)	4,620
Income taxes (recovery)				
Current	(16)	(333)	256	(49)
Future	(2,192)	(988)	(5,827)	(1,748)
	(2,208)	(1,321)	(5,571)	(1,797)
Income before non-controlling interest	3,726	2,946	3,113	6,417
Non-controlling interest (note 6)	(438)	(490)	(355)	(1,181)
Net Income	3,288	2,456	2,758	5,236
Other comprehensive income				
Unrealized gain on interest rate cash flow hedges, net of tax effect	3,076	951	2,979	951
Comprehensive income for the period	$ 6,364	$ 3,407	$ 5,737	$ 6,187
Net income per Unit (note 8)				
- Basic	$ 0.078	$ 0.093	$ 0.071	$ 0.215
- Diluted	$ 0.078	$ 0.091	$ 0.070	$ 0.212

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(Unaudited)
(In thousands of dollars)

Six months ended June 30, 2009

	Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, December 31, 2008	$ 362,223	$ -	$ (11,096)	$ (32,997)	$ 318,130
Change in accounting policy related to EIC 173 (note 2(b)(ii))	-	-	627	-	627
As restated, January 1, 2009	362,223	-	(10,469)	(32,997)	318,757
Exchange of Class B LP Units	745	-	-	-	745
Issuance of Units	55,000	-	-	-	55,000
Units issuance costs, net of future income tax benefits	(2,467)	-	-	-	(2,467)
Long-term incentive plan - conversion (note 7)	(3,176)	1,650	-	-	(1,526)
Long-term incentive plan (note 7)	-	943	-	-	943
Net income for the period	-	-	-	2,758	2,758
Other comprehensive income for the period	-	-	2,979	-	2,979
Distributions	-	-	-	(18,798)	(18,798)
Balance, June 30, 2009	$ 412,325	$ 2,593	$ (7,490)	$ (49,037)	$ 358,391

Six months ended June 30, 2008

	Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2007	$ 211,833	$ -	$ -	$ (14,165)	$ 197,668
Exchange of Class B LP Unit	1,626	-	-	-	1,626
Issuance of Units	153,000	-	-	-	153,000
Units issuance costs, net of future income tax benefits	(7,316)	-	-	-	(7,316)
Net income for the period	-	-	-	5,236	5,236
Other comprehensive income for the period	-	-	951	-	951
Distributions	-	-	-	(10,968)	(10,968)
Balance, June 30, 2008	$ 359,143	$ -	$ 951	$ (19,897)	$ 340,197

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash provided by (used in):				
Operating activities				
Net income	$ 3,288	$ 2,456	$ 2,758	$ 5,236
Items not involving cash:				
Amortization of capital assets	1,156	1,015	2,189	1,675
Amortization of intangible assets	10,316	5,931	20,632	9,574
Amortization of debt issue costs (note 3)	117	108	234	121
Non-controlling interests of Class B LP Units	438	490	355	1,181
Gain on sale of intangible assets	(94)	-	(94)	-
Long term incentive plan (note 7)	943	-	943	-
Future income recovery	(2,192)	(988)	(5,827)	(1,748)
Salary component of Heath acquisition	-	518	-	758
Accretion and loss on early settlement related to promissory note	622	570	3,292	570
Fair value of forward exchange contracts	(1,336)	-	(819)	-
Fair value of interest-rate swap agreements	-	86	-	785
Other	(310)	37	(59)	37
	12,948	10,223	23,604	18,189
Change in non-cash operating working capital (note 9)	(11,365)	305	(13,952)	(7,717)
	1,583	10,528	9,652	10,472
Financing activities				
Issuance of units	-	153,000	55,000	153,000
Expenses related to issuance of units	-	(10,467)	(3,500)	(10,467)
Proceeds from long-term debt (note 3)	23,000	137,000	23,000	137,000
Repayment of promissory note (note 4)	(23,230)	-	(74,730)	-
Repayment of term loan	-	(35,000)	-	(35,000)
Deferred financing cost	-	(1,875)	-	(1,875)
Operating line of credit (note 3)	7,000	2,300	8,000	2,300
Distribution paid	(11,235)	(6,131)	(20,934)	(12,262)
	(4,465)	238,827	(13,164)	232,696
Investing activities				
Business acquisition – Shepell•fgi	-	(246,466)	-	(246,466)
Business acquisition – Heath	-	(813)	-	(813)
Cash assumed from acquisitions	-	272	-	272
Proceeds from sale of intangible assets	218	-	218	-
Purchase of capital assets	(1,532)	(493)	(3,009)	(760)
	(1,314)	(247,500)	(2,791)	(247,767)
Net (increase) decrease in bank indebtedness for the period	(4,196)	1,855	(6,303)	(4,599)
Bank indebtedness, beginning of period	(2,611)	(3,556)	(504)	2,898
Bank indebtedness, end of period	$ (6,807)	$ (1,701)	$ (6,807)	$ (1,701)

See accompanying notes to consolidated financial statements

1. ORGANIZATION AND NATURE OF THE BUSINESS

Morneau Sobeco Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on August 22, 2005.

The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2008, except for the changes in accounting policies mentioned in note 2 below. The interim unaudited consolidated financial statements do not include all the information and disclosures required by Canadian GAAP and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Fund's annual report for the year ended December 31, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Long-term incentive plan

Under the Fund's long-term incentive plan ("LTIP") consisting of a restricted stock unit plan (the "RSU plan") and a deferred stock unit plan (the "DSU plan"), participants are eligible to receive Units. The amount awarded under the DSU plan is valued at the Unit's fair value on the date of the award, and the RSU plan is based on the purchased amount. The amounts awarded are recorded as salary, benefit and contractor expenses in line with the vesting dates which range from one to three years. As the Units vest, they are transferred or issued to the plan participant and are recorded as Unitholders' Capital. Unvested LTIP DSUs (note 7) are entitled to cash bonuses equivalent to the distributions paid on the Fund Units and the amounts are recorded as expenses as distributions are declared.

(b) New accounting policies

Effective January 1, 2009 the Fund adopted the following new accounting standards:

(i) Section 3064, *Goodwill and Intangible Assets*, which replaces the existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The adoption of this section has not impacted the Fund's consolidated financial statements.

(ii) EIC 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities*. This Abstract establishes that an entity's own credit risk and that of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, inclusive of derivative instruments. EIC 173 has been applied retrospectively without restatement of prior periods for the period commencing January 1, 2009. The adoption of EIC 173 resulted in an adjustment to opening accumulated other comprehensive loss of $627.

3. BANK INDEBTEDNESS AND LONG-TERM DEBT

	June 30, 2009	December 31, 2008
Non-revolving term loans	$ 160,000	$ 137,000
Revolving loan	15,000	7,000
	175,000	144,000
Less: current portion of long-term debt	(15,000)	(7,000)
Less: debt issue costs, net of accumulated amortization	(1,348)	(1,582)
	$ 158,652	$ 135,418

On June 30, 2009, the Fund received an advance under the delayed draw term facility of $23,000 to finance the repayment of the promissory note.

At June 30, 2009 the Fund utilized the following credit facilities:

- $160,000 of term loans. The term loans are repayable in full on June 1, 2012 and bear interest at one month banker acceptance ("BA") rate plus an applicable margin of 2%.
- $15,000 of revolving loans. The revolving loan is comprised of a BA loan of $14,000 and a Prime rate loan of $1,000. Both loans mature in July 2009, but are eligible for renewal under the terms of the revolving loan until June 1, 2012. The loans bear interest at banker acceptance rate or prime rate plus the applicable margin of 2% or 1%, respectively.
- Bank indebtedness of $5,000 under the revolving facilities. The overdraft carries interest at prime plus an applicable margin of 2%.

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

(i) Debt to Adjusted EBITDA ratio shall not exceed 3.5:1.0 for the period up to December 30, 2009 and declining to 3.0:1.0 on December 31, 2009 and 2.5:1.0 on June 30, 2011 and thereafter.

(ii) EBITDA to interest expense ratio of not less than 3.0 to 1.0

EBITDA is defined as net income before interest expense, income taxes (recovery), depreciation, amortization and non-controlling interest. Adjusted EBITDA is defined as the rolling twelve months earnings before interest, taxes, depreciation and amortization of the Fund and Shepell•fgi and Leong & Associates.

The Fund complied with all the required financial covenants and the ratios as at June 30, 2009 were 3.13 and 5.09 respectively.

Interest-rate swap

In connection with the delayed draw term facility, the Fund entered into a new interest-rate swap agreement in the notional amount of $23,000 from June 30, 2009 to and ending on June 1, 2012.

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

This swap was used to fix the variable component of the interest rate at 2.22%, before the applicable margin of 2%, for the duration of the term and has been designated as a cash flow hedge. The fair value of the swap as at June 30, 2009 was $(326).

The fair value of the existing interest-rate swap, previously entered into in connection with the term loan at the total notional amount of $137,000, as at June 30, 2009 was $(7,597).

Interest expense

Interest expense is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest on term loan	$ 2,021	$ 907	$4,060	$ 1,278
Accretion of interest on promissory notes	622	570	3,291	570
Interest on revolving loan, bank indebtedness and other charges	237	48	375	56
Amortization of debt issue costs	117	108	234	121
Swap termination fees	-	196	-	196
Interest-rate swap agreements fair value adjustment	-	86	-	785
	$ 2,997	$ 1,915	$ 7,960	$ 3,006

4. PROMISSORY NOTES

On June 30, 2009, the Fund paid the remaining $23,230 of the $75,000 promissory note. To finance the repayment, the Fund utilized the $23,000 senior secured non-revolving delayed draw term facility with the remaining balance being funded through borrowing from working capital.

At June 30, 2009, the amount represents the promissory note of $4,500 due on July 2, 2010. The note is recorded at its initial present value plus accreted interest. The Fund has the option to repay 100% of the note through the issuance of Units, the number determined by dividing the dollar amount by the then market trading price discounted by 5%.

5. FUND UNITS

The following details the issued and outstanding Units and Special Voting Units:

	Units Issued	Special Voting Units	Total Units	Amount
Balance, December 31, 2008	35,380,524	5,696,591	41,077,115	$ 362,223
Exchange of Class B LP Units	86,152	(86,152)	-	745
Units issued in public offering	6,666,700	-	6,666,700	55,000
Issuance costs, net of future income tax benefits		-	-	(2,467)
Treasury Units related to Long-term incentive plan -conversion (note 7)	-	-	-	(3,176)
Balance, June 30, 2009	42,133,376	5,610,439	47,743,815	$ 412,325

5. FUND UNITS (continued)

On March 24, 2009, the Fund completed a public offering ("Offering"). Pursuant to the Offering, the Fund issued 6,666,670 Units at a price of $8.25 per unit for cash proceeds of $55,000. The issuance costs, net of future income tax benefits of $1,033, was $2,467.

On May 13, 2009, certain participants of the RSU plan exchanged their awarded Units for new LTIP DSUs (note 7). Pursuant to the exchange, the Fund indirectly re-acquired 277,016 Fund Units, which will be sold and the proceeds returned to the Fund, or as otherwise directed by the Fund.

6. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco, Heath and Leong & Associates own 5,610,439 Class B LP Units of MS Group LP. The Class B LP Units are fully exchangeable for an equal number of Units in the Fund which equates to a non-controlling interest of 11.75% (December 31, 2008 – 13.9%) in the Fund.

	Unit issued	Amount
Balance, December 31, 2008	5,696,591	$ 51,724
Exchanged Units	(86,152)	(745)
Share of income for the period	-	355
Distributions for the period	-	(2,659)
Balance, June 30, 2009	5,610,439	$ 48,675

7. LONG-TERM INCENTIVE PLAN

The Fund has two types of long-term incentive plans: a restricted stock unit plan ("RSU plan") and a Deferred Stock Unit Plan ("DSU plan").

RSU plan

Under the Fund's RSU plan an individual is awarded a dollar amount, which will be used by the trustees of the RSU plan to purchase Units of the Fund in the open market. The Units will be held by the trustees until such time as ownership vests to each participant. Units will vest within a period of three years from end of the year in respect of which the grant was made, based upon the determination made by the Compensation, Nominating and Corporate Governance Committee ("CNCG Committee") and/or Board at the time of the grant. 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 trustees for a participant will typically be forfeited if the participant resigns or is terminated prior to the applicable vesting date. Forfeited Units will be sold and the proceeds returned to the Fund, or as otherwise directed by the Fund.

The expense recognized for the three months ended June 30, 2009 and June 30, 2008 was $158 and $170 and for the six months ended June 30, 2009 and June 30, 2008 was $479 and $341 respectively.

7. LONG-TERM INCENTIVE PLAN (continued)

DSU Plan

The Fund's DSU plan offered by its subsidiary, HRCO Inc., received Unitholders' approval on May 13, 2009.

At the option of the Fund, each DSU represents the right of the employee to receive, on a deferred basis: one Fund Unit issued from treasury; or the equivalent cash value; or an award of one exchangeable share of HRCO Inc., subject to such restrictions as the compensation committee may determine. Holders of DSUs receive cash bonuses equivalent to the distributions paid on the Units. DSUs are non-assignable other than by will or the laws of descent and distribution, and generally vest over one to three years. The compensation committee can accelerate the vesting of DSUs in its discretion.

A maximum of 1,750,000 Units or securities exchangeable for Units that are issued and outstanding, may be issued under the DSU Plan.

During the quarter, the Fund granted 487,519 LTIP DSUs primarily to senior management of Shepell•fgi, related to the 2008 acquisition of Shepell•fgi.

In addition, certain participants of the RSU plan exchanged their awarded Units under the RSU plan for new LTIP DSUs ('the exchange") on a one for one basis with identical vesting. The exchange resulted in the Fund indirectly re-acquiring 277,016 Fund Units The Units are being held in treasury and have not been cancelled.

The measurement date for the awards for accounting purpose occurred once the DSU plan received Unitholder approval. It is the Fund's intention to settle all of the DSU obligations through the issuance of Units. Consequently, the DSUs will not be re-measured at each reporting period.

As at June 30, 2009, the total LTIP DSUs held by the participants was 764,535 Units and the expense, including bonuses in lieu of distributions, recognized for the three and six months ended June 30, 2009 was $1,145.

8. NET INCOME PER UNIT

Net income per Unit is calculated by dividing net income by the weighted average number of Units outstanding during the period. The following table reconciles the weighted average number of Units outstanding used in computing basic net income per Unit to weighted average number of Units in computing diluted Net income per Unit:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Basic:				
Net income	$ 3,288	$ 2,456	$ 2,758	$ 5,236
Weighted average number of Units outstanding	41,996,963	26,402,372	39,019,052	24,326,996
Diluted:				
Net income	$ 3,288	$ 2,456	$ 2,758	$ 5,236
Non-controlling interest	438	490	355	1,181
Net income available to Unitholders and Class B LP Unitholders	$ 3,726	$ 2,946	$ 3,113	$ 6,417
Weighted average number of Units outstanding – Basic	41,996,963	26,402,372	39,019,052	24,326,996
Weighted average exchangeable Class B LP Units outstanding	5,611,306	5,447,845	5,636,342	5,490,293
Dilutive effect of LTIP –DSU plan	123,362	-	59,476	-
Dilutive effect of Class B LP Units in connection with the Heath acquisition	-	483,321	-	484,656
Total weighted average number of diluted Units	47,731,631	32,333,538	44,714,870	30,301,945
Net income per Unit				
– Basic	$ 0.078	$ 0.093	$ 0.071	$ 0.215
– Diluted	$ 0.078	$ 0.091	$ 0.070	$ 0.212

Due to its anti-dilutive effect, the effect of the potential issuance related to the promissory note has been excluded from the net income per unit calculation since the effect would be anti-dilutive.

9. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Accounts receivable	$ (3,230)	$ (1,362)	$ (6,080)	$ (3,272)
Unbilled fees	(2,790)	(1,580)	(1,008)	(2,097)
Income taxes recoverable/payable	799	(321)	(23)	(529)
Prepaid expense and other	(531)	(1,694)	646	(1,175)
Accounts payable and accrued liabilities	(5,927)	5,457	(8,353)	(607)
Deferred revenue	314	(195)	866	(37)
	$(11,365)	$ 305	$ (13,952)	$ (7,717)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest paid	$ 2,113	$ 908	$ 4,202	$ 1,212
Income taxes paid	$ 1	$ 142	$ 952	$ 240

9. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION (continued)

Excluded from the consolidated statements of cash flows were the non-cash transactions regarding the exchanges of RSUs to DSUs (note 7), which resulted in an increase in contributed surplus of $1,650, decrease of Unitholders' Capital of $3,176 and a decreased in Prepaid expense and Other of $1,526.

10. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at June 30, 2009 the minimum payments not including operating expenses, due in each of the next five years and thereafter, are expected to be as follows for each year ending December 31:

2009 (remainder)	$ 5,396
2010	10,204
2011	8,926
2012	7,562
2013	6,853
Thereafter	40,649
Total	$ 79,590

In addition, the Fund has two subleases for which the Fund is liable for the rent in case of a default by the subtenants. The average annual rent for the leases are $192 and $278 and expire on October 30, 2011 and June 29, 2017, respectively. The fair value of the total future lease payments as at June 30, 2009 was $2,084. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

11. CONTINGENCIES

From time to time, the Fund is involved in routine litigation incidental to the Fund's business. Management believes that adequate provisions have been made where required and the ultimate resolution with respect to any claim will not have a material adverse effect on the financial position or results of operations of the Fund.

12. ECONOMIC DEPENDENCE

Revenue from the Fund's largest client for the three and six months ended June 30, 2009 were approximately 5% (for three and six months ended June 30, 2008– 9%) and its top 10 clients, in the aggregate, accounted for approximately 23% and 22%, respectively (for three and six months ended June 30, 2008 – 27%).

Accounts receivable from the Fund's largest client was approximately 2% of the total accounts receivable as at June 30, 2009 (December 31, 2008 – 1%). The Fund's top 10 clients accounted for approximately 21% of the total accounts receivable as at June 30, 2009 (December 31, 2008 – 23%).

13. SEGMENTED INFORMATION

The Fund's operations consist of one reporting segment, which provides human resource, consulting and outsourcing services. Geographic data is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
Revenue	2009	2008	2009	2008
Canada	$ 78,758	$ 48,967	$ 154,378	$ 85,668
United States	6,145	3,396	12,281	5,829
	$ 84,903	$ 52,363	$ 166,659	$ 91,497

	June 30, 2009	December 31, 2008
Assets:		
Canada	$ 669,333	$ 680,903
United States	8,514	8,962
Liabilities:		
Canada	$ 268,055	$ 317,394
United States	2,726	2,617

14. FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they fall due. The Fund manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage.

The Fund's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, capital expenditures, distributions to Unitholders and acquisition funding requirements.

As at June 30, 2009, the Fund's bank indebtedness, excluding outstanding cheques, temporarily exceeded the amount under the revolving facilities by $938, a situation which arose due to the timing of payments and collections. Our average bank indebtedness for the month of July 2009 was below the $5,000 bank indebtedness level allowable under the revolving credit facilities.

Morneau Sobeco Income Fund (the "Fund") was formed on August 22, 2005 and commenced operations on September 30, 2005 when it completed an initial public offering.

This Management's Discussion and Analysis ("MD&A") covers the three and six months ended June 30, 2009 and should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements of the Fund and notes thereto for the three and six months ended June 30, 2009 as well as the MD&A, and the Audited Consolidated Financial Statements and notes thereto contained in the Fund's Annual Report for the year ended December 31, 2008.
All financial information is presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

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

To assist investors in assessing the Fund's financial performance, this discussion also makes reference to certain non-GAAP measures such as Standardized EBITDA, Standardized Distributable Cash, Adjusted Consolidated Distributable Cash, Standardized Distributable Cash Payout Ratio and Adjusted Consolidated Distributable Cash Payout Ratio. Standardized EBITDA represents an indication of the entity's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, Standardized EBITDA comprises revenues less operating costs before interest expense, capital asset amortization and impairment charges, and income taxes. We believe that Standardized EBITDA is a useful measure in evaluating performance of the Fund. It is used to monitor compliance with debt covenants and to make decisions related to distributions to Unitholders rather than net income due to the significant amount of amortization expense related to our intangible assets. We also believe that Standardized Distributable Cash, Adjusted Consolidated Distributable Cash, Standardized Distributable Cash Payout Ratio and Adjusted Consolidated Distributable Cash Payout Ratio are useful supplemental measures of performance as they are generally used by Canadian open-ended business income funds as indicators of financial performance. See the footnotes to the "Results of Operations" chart for more details. Non-GAAP measures do not have any standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

This MD&A is in all material respects in accordance with the recommendations provided in CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure* and the CICA's publication *Improved Communication with*

Non-GAAP Financial Measures: General Principles and Guidance for Reporting EBITDA and Free Cash Flow.

FORMATION AND OWNERSHIP STRUCTURE OF THE FUND

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of Ontario. It indirectly owns 42,133,376 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 88.2% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 11.8% non-controlling interest in MS Group LP is held through Class B LP units of the limited partnership (the "Class B LP Units") and an equal number of Special Voting Units of the Fund, which together are exchangeable into Units. Management employees and former owners of the predecessors of the Morneau Sobeco Operating Entities ("Management Securityholders") hold this non-controlling interest.

As at June 30, 2009, 42,133,376 Units and 5,610,439 Special Voting Units of the Fund were issued and outstanding, and 5,610,439 MS Group LP Class B LP Units were issued and outstanding.

BUSINESS OVERVIEW

Morneau Sobeco Income Fund is the largest Canadian-owned firm providing human resource consulting and outsourcing services. The firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees. With over 2,200 employees in offices across North America, Morneau Sobeco Income Fund offers its services to over 6,000 organizations situated in Canada, in the United States and around the globe.

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

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

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

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits (e.g., pension, health, dental), payroll taxes, independent service providers and temporary staffing services. The remaining operating expenses include occupancy costs, technology costs (equipment leases, telecommunications and software), non-recoverable client service

costs (such as printing, travel and third-party professional services), training, marketing, office costs, professional services (such as legal and audit) and insurance.

SUMMARY AND OUTLOOK

The results for the second quarter of 2009 included the results of the acquisitions of Shepell•fgi and Leong & Associates and met our expectations. For the three and six months ended June 30, 2009 revenue growth was 62.1% and 82.1% respectively, compared to the same periods in 2008. Beyond the growth from our 2008 acquisitions, the primary area of growth came from our pension consulting practice. Standardized EBITDA growth for the three and six months ended June 30, 2009 were 52.5% and 50.1%, respectively. Standardized EBITDA margin for the three and six months ended June 30, 2009 were 18.8% and 17.0%, compared to 20.0% and 20.6% for the same periods in 2008 respectively. Standardized EBITDA per Unit (basic) for the same periods were $0.336 and $0.634, compared to $0.329 and $0.633 for the same periods in 2008 respectively. The lower margin compared to 2008 is consistent with the seasonality of the EAP business which typically has high employee utilization in the first two quarters of the year and lower utilization in the second half. Expenses are incurred in line with the utilization patterns while revenue for some clients is recognized more heavily in the later part of the calendar year.

We continue to see strong growth in revenue from EAP services with 13% increased usage over the six month period in 2008, pension consulting growth of 18% and pandemic disease crisis management services of $1.1 million. We have seen some lengthening of the purchase cycle in the current economic environment. We traditionally see a seasonal softness in consulting services in the summer months and we expect that to continue this year. We remain positive about our prospects for 2009.

DISTRIBUTIONS TO UNITHOLDERS

Monthly distributions are declared by the Fund for Unitholders of record on the last business day of each month and are paid on about the 15th day of the following month.

Monthly distributions for the first five months of 2008 were $0.07356 per unit and increased to $0.07871 per unit starting June 2008 subsequent to the acquisition of Shepell•fgi business.

The following table presents excess (shortfall) cash flow from operating activities and net income over distributions to Unitholders for the three and six months ended June 30, 2009 and 2008 and for the years ended December 31, 2008 and 2007.

(in thousands of dollars)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Year Ended Dec. 31, 2008	Year Ended Dec. 31, 2007
Cash flow from operating activities	$ 1,583	$ 10,528	$ 9,652	$ 10,472	$ 35,295	$ 27,878
Net income	3,288	2,456	2,758	5,236	8,796	12,120
Distributions to Unitholders, including Class B LP Units	11,234	7,296	21,458	13,428	32,718	24,257
(Shortfall) excess of cash flow from operating activities over distributions	(9,651)	3,232	(11,806)	(2,956)	2,577	3,621
(Shortfall) of net income from operating activities over distributions	(7,946)	(4,840)	(18,700)	(8,192)	(23,922)	(12,137)

We consider the amount of cash generated by the business in determining the amount of distributions payable to Unitholders. In general, we do not take into account quarterly working capital fluctuations as these tend to be temporary in nature. We do not generally consider net income in setting the level of distributions as this is a non-cash metric and is not reflective of the level of cash flow that we generate. The divergence is particularly relevant for us since we have a relatively high level of amortization expense as well as non-controlling interest related to the Class B LP Units. Our annual excess cash from operating activities over distributions has been used to finance growth in accounts receivable, capital expenditures and acquisitions.

The shortfall of cash flow from operating activities over distributions for the six months ended June 30, 2009 is the result of the seasonality of the EAP business and the annual payment of employee bonuses which are paid in the first half of each year. We believe that based on our current budget and past history, our cash flow from operating activities will exceed our distributions on a year to date basis in future quarters.

The Standardized Distributable Cash Payout Ratio was 140.9% on a twelve-month rolling basis ending June 30, 2009 compared to 87.0% for the same period in 2008. The Adjusted Consolidated Distributable Cash Payout Ratio for the three and six months ended June 30, 2009 was 98.4% and 104.2% compared to 75.0% and 77.0% for the same period in 2008. The higher Adjusted Consolidated Distributable Cash Payout Ratio for the three and six months ended June 30, 2009 reflects the seasonality of the EAP business. The comparable 2008 Payout Ratios also only include one month's results for the Shepell•fgi business. On a twelve-month rolling basis ended June 30, 2009, the Adjusted Consolidated Distributable Cash Payout Ratio was 87.3% compared to 82.9% for the same period in 2008 as a result of increased distributions during the period due to the issuance of additional units on March 24, 2009 as part of the bought deal offering.

ANALYSIS OF 2009 SECOND QUARTER OPERATING RESULTS

Results of Operations	Three Months Ended June 30		Six Months Ended June 30	
Selected Unaudited Consolidated Financial Information	2009	2008	2009	2008
(In thousands of dollars except per unit amounts)				
Revenue	**$ 84,903**	$ 52,363	**$166,659**	$ 91,497
Deduct:				
Salary, benefit and contractor expenses	**54,854**	32,428	**108,701**	56,765
Other operating expense	**14,062**	9,449	**29,635**	15,857
Interest	**2,997**	1,915	**7,960**	3,006
Amortization of capital and intangible assets	**11,472**	6,946	**22,821**	11,249
Income taxes (recovery)	**(2,208)**	(1,321)	**(5,571)**	(1,797)
Non-controlling interest	**438**	490	**355**	1,181
Net income for the period	**3,288**	2,456	**2,758**	5,236
Add (deduct):				
Interest	**2,997**	1,915	**7,960**	3,006
Amortization of capital and intangible assets	**11,472**	6,946	**22,821**	11,249
Income taxes (recovery)	**(2,208)**	(1,321)	**(5,571)**	(1,797)
Non-controlling interest	**438**	490	**355**	1,181
Standardized EBITDA(1)	**$ 15,987**	$ 10,486	**$ 28,323**	$ 18,875
Standardized EBITDA margin	**18.8%**	20.0%	**17.0%**	20.6%
Cash from operating activities	**$ 1,583**	$10,528	**$ 9,652**	$10,472
Deduct: Capital expenditures	**1,532**	493	**3,009**	760
Consolidated Distributable Cash (2)	**51**	10,035	**6,643**	9,712
Deduct: Consolidated Distributable Cash available to non-controlling interest	**6**	1,853	**902**	1,789
Standardized Distributable Cash (available for Unitholders) (3)	**$ 45**	$ 8,182	**$ 5,741**	$ 7,923
Consolidated Distributable Cash (2)	**$ 51**	$10,035	**$ 6,643**	$ 9,712
Add: Changes in Non-cash operating working capital	**11,365**	(305)	**13,952**	7,717
Adjusted Consolidated Distributable Cash (4)	**11,416**	$ 9,730	**$ 20,596**	$17,429
Net income per Unit (basic)	**$ 0.078**	$ 0.093	**$ 0.071**	$ 0.215
Net income per Unit (diluted)	**$ 0.078**	$ 0.091	**$ 0.070**	$ 0.212
Standardized EBITDA per Unit (basic)	**$ 0.336**	$ 0.329	**$ 0.634**	$ 0.633
Standardized Distributable Cash per Unit (basic)	**$ 0.001**	$ 0.310	**$ 0.147**	$ 0.326
Adjusted Consolidated Distributable Cash per Unit (basic)	**$ 0.240**	$ 0.305	**$ 0.461**	$ 0.585
Standardized Distributions declared per Unit (basic)	**$ 0.236**	$ 0.226	**$ 0.472**	$ 0.447
Standardized Distributable Cash Payout Ratio (5)/ (7)	**NM**	73.9%	**327.4%**	138.4%
Adjusted Consolidated Distributable Cash Payout Ratio (6)	**98.4%**	75.0%	**104.2%**	77.0%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	**140.9%**	87.0%	**140.9%**	87.0%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	**87.3%**	82.9%	**87.3%**	82.9%

Footnotes:

(1) "Standardized EBITDA" is defined as net income before interest expense, income taxes (recovery), depreciation, amortization and non-controlling interest.

(2) "Consolidated Distributable Cash" is defined as cash from operating activities adjusted for maintenance capital expenditures.

(3) "Standardized Distributable Cash" is defined as cash from operating activities, including the effects of changes in non-cash operating working capital, less maintenance capital expenditures and Consolidated Distributable Cash available to non-controlling interest.

(4) "Adjusted Consolidated Distributable Cash" is defined as Consolidated Distributable Cash excluding changes in non-cash operating working capital.

(5) "Standardized Distributable Cash Payout Ratio" is defined as declared distributions divided by Standardized Distributable Cash.

(6) "Adjusted Consolidated Distributable Cash Payout Ratio" is defined as declared distributions divided by Adjusted Consolidated Distributable Cash.

(7) This ratio is not presented since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure or close to break even.

ANALYSIS OF 2009 SECOND QUARTER RESULTS

Revenue

Revenue for the three months ended June 30, 2009 increased by $32.5 million, or 62.1%, to $84.9 million compared to $52.4 million for the same period in 2008. The increase in revenue was primarily due to increased Shepell•fgi revenue of $28.7 million resulting from the inclusion of three months' revenue in 2009 compared to one month's in 2008 and the revenue from the acquired business of Leong & Associates of $1.0 million. The remaining $2.8 million increase is attributable to continued growth in our pension consulting practice during the period.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the three months ended June 30, 2009 increased by $22.4 million, or 69.2%, to $54.8 million compared to $32.4 million for the same period in 2008. The increase was mainly attributable to increased Shepell•fgi salary, benefit and contractor expenses of $19.8 million resulting from the inclusion of three months' expense in 2009 compared to one month's in 2008, $0.5 million from Leong & Associates acquisition, increased long-term incentive plan expenditures of $0.8 million related to the Shepell•fgi management, which was expected as part of the acquisition and general increase of $1.3 million.

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2009 increased by $4.6 million or 48.8%, to $14.1 million compared to $9.5 million for the same period in 2008. The increase was mainly attributable to increased Shepell•fgi operating expenses of $3.8 million resulting from the inclusion of three months' expense in 2009 compared to one month's in 2008, increased rent and occupancy costs of $0.5 million due to the relocation and expansion of three large offices which commenced in the latter part of the second and third quarters of 2008 and increased capital tax expense of $0.6 million. This is offset by an increase in foreign exchange gain of $0.8 million compared to the same quarter last year.

Interest Expense

Interest expense for the three months ended June 30, 2009 increased by $1.1 million to $3.0 million compared to $1.9 million for the same period in 2008. The increase was due to interest expense on the new credit facility obtained to finance the Shepell•fgi acquisition.

Amortization of Capital and Intangible Assets

Amortization for the three months ended June 30, 2009 increased by $4.5 million to $11.5 million compared to $7.0 million for the same period in 2008. This change was primarily the result of the amortization of the intangible assets acquired through the acquisition of Leong & Associates during the fourth quarter of 2008, and three months' amortization on intangible assets acquired through the Shepell•fgi acquisition in the current period compared to one month of amortization in the same period of 2008.

Income Tax Recovery

Income tax recovery for the three months ended June 30, 2009 increased by $0.9 million to $2.2 million compared to the $1.3 million recovery for the same period in 2008. The increase was primarily attributable to the tax loss generated by a taxable subsidiary due to the availability of the eligible tax deductions from the acquisition of Shepell•fgi.

Net Income

As a result of the changes noted above, the net income for the three months ended June 30, 2009 was $3.3 million compared to the net income of $2.5 million for the same period in 2008.

Cash from Operating Activities

Cash from operating activities for the three months ended June 30, 2009 decreased by $8.9 million to $1.6 million compared to $10.5 million for the same period in 2008. This change was primarily due to the offset of improved EBITDA of $5.5 million by an increased use of cash related to the changes in non-cash operating working capital of $11.7 million (see below), non-cash gain on the fair value of foreign exchange contracts of $1.3 million, and increased interest payments of $1.3 million related to the Fund's new debt obtained in connection with the Shepell•fgi acquisition.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended June 30, 2009 decreased by $11.7 million to a use of cash of $11.4 million compared to a cash inflow of $0.3 million for the same period in 2008. The decrease was primarily attributable to the change in accounts payable and accrued liabilities. For this quarter, this change was a use of cash of $5.9 million compared to a source of cash of $5.5 million for the same period in 2008 due to the timing of the annual bonus payments and of Shepell•fgi acquisition related payments.

Non-GAAP Financial Measures: Standardized EBITDA, Standardized Distributable Cash and Adjusted Consolidated Distributable Cash

Standardized EBITDA

Standardized EBITDA for the three months ended June 30, 2009 increased by $5.5 million, or 52.5%, to $16.0 million compared to $10.5 million for the same period in 2008. The increase was due to increased revenue of $32.5 million offset by increased salary, benefit and contractor expenses and other operating expenses of $27.0 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended June 30, 2009 decreased by $8.2 million to break even in 2009 compared to $8.2 million for the same period in 2008. This decrease was primarily due to decreased cash from operating activities of $8.9 million.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the three months ended June 30, 2009 increased by $1.7 million to $11.4 million compared to $9.7 million for the same period in 2008. The increase was primarily due to increased Standardized EBITDA of $5.5 million, partially offset by increased interest payments of $1.1 million relating to the Fund's debt obtained relating to the Shepell•fgi acquisition, a non-cash gain on the fair value of foreign exchange contracts of $1.3 million, increased capital expenditures of $1.0 million and a current income taxes recovery of $0.4 million in the same quarter in 2008.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2009 AND 2008 RESULTS

Revenue

Revenue for the six months ended June 30, 2009 increased by $75.2 million, or 82.1%, to $166.7 million compared to $91.5 million for the same period in 2008. The increase in revenue was primarily due to increased Shepell•fgi revenue of $67.5 million resulting from the inclusion of six months' revenue in 2009 compared to one month's in 2008 and the revenue from the acquired business of Leong & Associates of $2.1 million. The remaining increase of $5.6 million is attributable to continuous growth in our pension consulting practice during the period.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the six months ended June 30, 2009 increased by $51.9 million, or 91.5%, to $108.7 million compared to $56.8 million for the same period in 2008. The increase was mainly attributable to increased Shepell•fgi salary, benefit and contractor expenses of $46.3 million due to the inclusion of six months' expense in 2009 compared to one month's in 2008, $1.0 million due to the Leong & Associates acquisition, additional long term incentive plan expenditures of $0.8 million related to the Shepell•fgi management, which was expected as part of the acquisition and general increase of $3.8 million.

Other Operating Expenses

Other operating expenses for the six months ended June 30, 2009 increased by $13.7 million or 86.9%, to $29.6 million compared to $15.9 million for the same period in 2008. The increase was mainly attributable to increased Shepell•fgi operating expenses of $10.9 million due to the inclusion of six months' expense in 2009 compared to one month's in 2008, increased rent and occupancy costs of $1.1 million due to the relocation and expansion of three large offices which commenced in the latter part of the second and third quarters of 2008 and increase in capital tax expense compared to the same period last year of $1.4 million due to an unfavorable reassessment.

Interest Expense

Interest expense for the six months ended June 30, 2009 increased by $5.0 million to $8.0 million compared to $3.0 million for the same period in 2008. The increase was primarily due to higher interest expense of $2.8 million on the new term loan obtained to finance the Shepell•fgi acquisition, increased accretion interest of $2.7 million on the promissory notes issued as part of the acquisition and increased interest expense of $0.3 million related to revolving loan and bank indebtedness. This increase is offset by an unfavorable fair value adjustment related to previous interest-rate swap agreements of $0.8 million in the same period last year.

Amortization of Capital and Intangible Assets

Amortization for the six months ended June 30, 2009 increased by $11.6 million, or 102.9%, to $22.8 million compared to $11.2 million for the same period in 2008. The increase was attributable to amortization expenditure relating to the intangible assets as a result of the acquisitions of the Shepell•fgi and Leong & Associates.

Income Tax Recovery

Income tax recovery for the six months ended June 30, 2009 increased by $3.8 million to $5.6 million compared to $1.8 million for the same period in 2008. The increase was primarily attributable to the tax loss generated by a taxable subsidiary due to the availability of the eligible tax deductions from the acquisition of Shepell•fgi.

Net Income

As a result of the changes noted above, the net income for the six months ended June 30, 2009 was $2.8 million compared to the net income of $5.2 million for the same period in 2008.

Cash from Operating Activities

Cash from operating activities for the six months ended June 30, 2009 decreased by $0.8 million to $9.7 million compared to $10.5 million for the same period in 2008. This change was primarily attributable to the improved EBITDA of $9.4 million offset by an increase in change in non-cash operating working capital of $6.2 million (see below), a non-cash gain on the fair value of foreign exchange contracts of $0.8 million, and additional interest paid of $3.2 million mainly relating to the Fund's debt obtained relating to the Shepell•fgi acquisition.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the six months ended June 30, 2009 decreased by $6.2 million to a use of cash of $13.9 million compared to use of cash of $7.7 million for the same period in 2008. The decrease was primarily attributable to the change in accounts payable and accrued liabilities. For this period ended, this change was a use of cash of $8.3 million compared to $0.6 million for the same period in 2008 primarily due to the timing of Shepell•fgi acquisition related payments and Shepell•fgi annual bonus payments.

Non-GAAP Financial Measures: Standardized EBITDA, Standardized Distributable Cash and Adjusted Consolidated Distributable Cash

Standardized EBITDA

Standardized EBITDA for the six months ended June 30, 2009 increased by $9.5 million, or 50.1%, to $28.3 million compared to $18.8 million for the same period in 2008. The increase was due to increased revenue of $75.2 million offset by increased salary, benefit and contractor expenses and other operating expenses of $65.7 million.

Standardized Distributable Cash

Standardized Distributable Cash for the six months ended June 30, 2009 decreased by $2.2 million to $5.7 million compared to $7.9 million for the same period in 2008. This decrease was primarily due to decreased cash from operating activities of $0.8 million and increased capital expenditures mainly for technology spending of $2.2 million. This is offset by a $0.9 million reduction in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the six months ended June 30, 2009 increased by $3.2 million to $20.6 million compared to $17.4 million for the same period in 2008. The increase was primarily due to increased EBITDA of $9.5 million, partially offset by increased interest payments of $3.2 million mostly due to debts obtained relating to the Shepell•fgi acquisition, increased capital expenditures of $2.2 million, a non-cash gain on the fair value of foreign exchange contracts of $0.8 million and the inclusion of a current income tax recovery of $0.3 million in the comparative 2008 period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table provides an overview of the Fund's cash flows for the periods indicated:

Cash Flow Information Selected Unaudited Consolidated Financial Information *(In thousands of dollars)*	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2009	**2008**	**2009**	**2008**
Cash provided by (used in):				
Operating activities	**$ 1,583**	$ 10,528	$ 9,652	$ 10,472
Investing activities	**(1,314)**	(247,500)	(2,791)	(247,767)
Financing activities	**(4,465)**	238,827	(13,164)	232,696
(Decrease) increase in cash	**$ (4,196)**	$ 1,855	$ (6,303)	$ (4,599)

2009 Second Quarter Results

Cash from operating activities for the three months ended June 30, 2009 decreased by $8.9 million to $1.6 million compared to $10.5 million for the same period in 2008. This change was primarily due to the offset of improved EBITDA of $5.5 million by an increased use of cash related to the changes in non-cash operating working capital of $11.6 million, non-cash gain on the fair value of foreign exchange contracts of $1.3 million, and increased interest payments of $1.1 million related to the Fund's new debt obtained in connection with the Shepell•fgi acquisition.

Cash used in investing activities for the three months ended June 30, 2009 decreased by $246.2 million to $1.3 million compared to cash outflows of $247.5 million for the same period in 2008. This decrease was primarily attributable to no business acquisitions during the period in 2009, compared to cash consideration paid net of cash assumed for the business acquisitions of Shepell•fgi and Heath Benefits Consulting Inc. ("Heath") of $246.5 million in the same period of 2008.

Cash provided by financing activities for the three months ended June 30, 2009 decreased by $243.3 million to a use of cash of $4.5 million compared to a source of cash of $238.8 million for the same period in 2008. The 2008 amount included $242.7 million of funds obtained through issuance of Units and proceeds from additional debt to finance the Shepell•fgi acquisition. In addition, distribution payment for the three months ended June 30, 2009 increased by $5.2 million as a result of additional Units issued in June 2008 and March 2009. This was partially offset by increased utilization of the line of credit used to manage the timing of our operating cash flow of $4.7 million.

Six Months Ended June 30, 2009 and 2008

Cash from operating activities for the six months ended June 30, 2009 decreased by $0.8 million to $9.7 million compared to $10.5 million for the same period in 2008. This change was primarily attributable to the improved EBITDA of $9.5 million offset by an increase in change in non-cash operating working capital of $6.2 million, a non-cash gain on the fair value of foreign exchange contracts of $0.8 million, and additional interest paid of $3.2 million mainly relating to the Fund's debt obtained relating to the Shepell•fgi acquisition.

Cash used in investing activities for the six months ended June 30, 2009 decreased by $245.0 million to $2.8 million compared to cash outflows of $247.8 million for the same period in 2008. This decrease was primarily attributable to cash consideration paid net of cash assumed during the quarter in 2008 for the Shepell•fgi acquisition of $246.2 million and the second installment of the Heath acquisition of $0.8 million. This decrease was partially offset by $2.2 million of increased capital expenditures mainly due to technology spending.

Cash from financing activities for the six months ended June 30, 2009 decreased by $245.9 million to a use of cash of $13.2 million compared to source of cash of $232.7 million for the same period in 2008. This decrease was primarily attributable to the inclusion of $242.7 million of funds obtained through issuance of Units and proceeds from additional debt to finance the Shepell•fgi acquisition in 2008 and increased distribution payments of $8.7 million as a result of Units issued in June 2008 and in March 2009 in conjunction with the Shepell•fgi acquisition. This decrease was partially offset by increased utilization of the operating line of credit of $5.7 million used to manage operational cash flow.

Capital Expenditures

Human resource consulting and outsourcing are not capital intensive. Our capital expenditures typically include office furniture, facility improvements and information technology hardware and software. Additional capital expenditure requirements may result from significant business expansion. Such amounts are expected to be funded from our operating cash flow.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have a term loan, a delayed draw facility, a revolving loan and a promissory note described under "Capital Resources". Future expected payments are as follows:

Summary of Contractual Obligations
(In thousands of dollars)

	Total	2009 to 2010	2011 to 2012	Beyond 2012
Term loan	$ 160,000	$ -	$ 160,000	$ -
Revolving loan	15,000	15,000	-	-
Promissory notes	4,500	4,500	-	-
Operating leases	79,590	15,600	16,488	47,502
Total	$ 259,090	$ 35,100	$ 176,488	$ 47,502

In addition, the Fund has two subleases for which the Fund is liable for the rent in case of a default by the subtenants. The average annual rent for each of these leases is $0.2 million, expiring on October 30, 2011 and June 29, 2017, respectively.

Contingent Considerations

The final installment related to Cowan DB business acquisition of $0.9 million was paid on August 1, 2009.

The purchase price for Leong & Associates is contingent on business results and is expected to be approximately $7.6 million payable in three installments. The first installment of $2.6 million was satisfied on closing through cash and equity consideration. The second and third installments, which are subject to revenue adjustments plus interest calculated at annual rates of 3.27% and 3.87%, will be settled on January 1, 2010 and April 1, 2011, respectively.

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

Capital Resources

The following table provides an overview of the Fund's capital resources:

Capital Resources *(In thousands of dollars)*	As at June 30, 2009	As at December 31, 2008
Bank indebtedness	$ 6,807	$ 504
Revolving loan	$ 15,000	$ 7,000
Long-term debt, net of unamortized debt issue cost	$ 158,652	$ 135,418
Promissory notes	$ 4,110	$ 43,917
Unitholders' equity	$ 358,391	$ 318,130

We have historically utilized cash from operations to finance our smaller acquisitions and to fund growth in our working capital requirements. As at June 30, 2009, the Fund's working capital (current assets minus current liabilities), excluding the current portion of promissory note and future considerations related to acquisition of $0.7 million, was approximately $ 20.3 million compared to $22.7 million as at December 31, 2008.

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

- $20 million senior secured revolving facility ("revolving loan").
- $137 million senior secured non-revolving term loan ("term loan").
- $23 million senior secured non-revolving delayed draw term facility (reduced from the initial balance of $40 million on March 24, 2009).

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

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

(i) Ratio of debt to Adjusted EBITDA shall commence at 3.5:1.0 for the period up to December 30, 2009 and declining to 3.0:1.0 on December 31, 2009 and 2.5:1.0 on June 30, 2011 and thereafter.
(ii) Ratio of Standardized EBITDA to interest expense of not less than 3.0:1.0

The Fund complied with all the required financial covenants and the ratios as at June 30, 2009 were 3.13:1 and 5.09:1 respectively.

Promissory notes

As part of the Shepell•fgi acquisition, the Fund issued two non-interest bearing promissory notes secured by a general assignment of all the assets of the Fund, which is subordinated to the credit facilities in the amounts of $75.0 million and $4.5 million due on July 2, 2009 and July 2, 2010, respectively.

During the first quarter of 2009, the Fund completed a public offering, in which 6,666,700 Units were issued at a price of $8.25 per Unit for cash proceeds, net of issuance costs, of $52.4 million. Using the proceeds generated therein, the Fund prepaid $51.5 million of the $75.0 million note and paid $23.2 million on June 30, 2009, to satisfy the remainder of the note.

On June 30, 2009, the Fund utilized the $23.0 million senior secured non-revolving delayed draw term facility to repay the remaining $23.2 million of the $75.0 million note.

The Fund has the option to repay up to 100% of the $4.5 million promissory note through the issuance of Units, the number determined by dividing the dollar amount by the then market trading price discounted by 5%.

The promissory note also includes a covenant that the Fund and its subsidiaries shall not incur any debt other than permitted debt as defined in the promissory note agreements unless, after the incurrence of such debt, the Fund would have on a pro forma consolidated basis a ratio of debt to Adjusted EBITDA of not greater than 4.5:1.0 determined as of the end of the fiscal quarter ending immediately prior to the date of determination.

SELECTED BALANCE SHEET DATA

The following table provides an overview of the Fund's selected balance sheet data:

Selected Balance Sheet Data *(in thousands of dollars)*	As at June 30, 2009	As at December 31, 2008
Current assets	$ 80,640	$ 75,757
Other long-term assets	$ 597,207	$ 614,108
Current liabilities	$ 60,980	$ 85,331

Current Assets

Current assets as at June 30, 2009 increased by $4.8 million to $80.6 million from $75.8 million as at December 31, 2008. The increase was primarily due to increase in accounts receivable net of unbilled fees of $7.0 million as a result of growth in revenue as well as the timing of billings and collections. This is partially offset by a decrease in prepaid expenses of $2.2 million mainly due to changes related to the long-term incentive plan.

Other Long-Term Assets

Other long-term assets as at June 30, 2009 decreased by $16.9 million to $597.2 million from $614.1 million as at December 31, 2008. The decrease was primarily due to the amortization of capital and intangible assets of $22.8 million, offset by capital expenditures of $3.0 million and increased future income tax assets of $3.0 million.

Current Liabilities

Current liabilities as at June 30, 2009 decreased by $24.3 million to $61.0 million from $85.3 million as at December 31, 2008. The decrease was primarily the result of the repayment of the promissory note that resulted in a decrease of $31.6 million in current liabilities and a decrease in accounts payable and accrued liabilities of $8.4 million mainly due to the payment of year end bonuses. This was offset by increased distributions payable of $0.5 million as a result of Units issued in June 2008 and in March 2009 in conjunction with the Shepell•fgi acquisition, increased deferred revenues of $0.9 million and increased borrowings on the revolving credit facility of $15.3 million to manage operational cash flow.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

We earn fee-for-service revenue based on hourly rates and the time spent delivering those services. We also earn contracted revenue based on negotiated fixed amounts or on a formula tied to the nature of the service, rather than the time spent. Revenue is recognized in the period that the service is rendered, irrespective of when it is invoiced. EAP revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a straight-line basis over the term of the contract. Incremental usage is recognized when the minimum usage threshold is exceeded up to a cap where applicable. Unbilled fees are recorded at the lower of unbilled hours worked at standard billing rates and the amount which we

estimate can be recovered upon invoicing. Expenses are recognized as incurred. Losses on fixed-fee contracts are recognized during the period in which the loss becomes probable. Billings in excess of revenue are recorded as a deferred revenue liability until services are rendered. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third-party professional services. Reimbursements are accounted for as a reduction to expenses.

We also earn commission revenue as payment for the provision of benefits consulting services to clients, as a percentage of insurance premiums paid by our clients. Commission revenue is received annually, semi-annually, quarterly or monthly. Annual fees are typically paid at the beginning of the insurance policy period and are recognized as income at the later of the billing or effective date of the policy, net of a provision for return commissions due to policy cancellations or change of broker.

Intangible Assets and Goodwill

Intangible assets consist of trade names, customer relationships, proprietary software, customer contracts and non-compete agreements. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite life are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate there may be an impairment by comparing the estimated discounted future net cash flows from the asset to its carrying amount.

Goodwill is not amortized and is subject to an annual impairment test. Goodwill impairment is assessed based on a comparison of the estimated fair value of the Fund and the carrying value of its net assets including goodwill. An impairment loss will be recognized if the carrying amount of the Fund's net assets exceeds its estimated fair value.

Allowance for Doubtful Accounts

A provision for accounts receivable resulting from the potential risk that the accounts receivable will not be collected has been recorded. We continually monitor past due accounts to assess the likelihood of collection to estimate the required provision.

Litigation and Claims

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

Future Income Taxes

The Fund uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Financial Instruments

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

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

The interest-rate swap and forward exchange agreements, that are not subject to hedge accounting are classified as held-for-trading and are recorded at their fair value with a corresponding adjustment to interest expense.

Derivative financial instruments are used by the Fund in the management of its interest rate risk exposure on debt financing and foreign exchange risk arises due to fluctuation**s** in United States currency rates.

Derivatives that have been designated and function effectively as a hedge are accounted for using hedge accounting principles. The effective portion of changes in fair value of derivatives that qualify for hedge accounting are recorded in other comprehensive income. Any ineffective portions of changes in the fair value are recognized in net income in the period in which the change occurred. If the hedging relationship ceases to be highly effective, changes in the fair value of the interest-rate swap are recognized in income beginning in the period in which the change occurs. Derivatives that do not qualify for hedge accounting such as the foreign exchange derivatives are recorded on the consolidated balance sheet at fair value with changes in fair value recorded as income or expense in the consolidated statement of income.

New Accounting Policies

Effective January 1, 2009 the Fund adopted the following new accounting standards:

1. Section 3064, *Goodwill and Intangible Assets,* which replaces the existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs.* This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The adoption of this section has not impacted the Fund's consolidated financial statements.

2. EIC 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities.* This Abstract establishes that an entity's own credit risk and that of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, inclusive of derivative instruments. EIC 173 has been applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods commencing January 20, 2009. The adoption of EIC 173 resulted in an adjustment to opening accumulated other comprehensive loss of $0.6 million.

Future Accounting Changes

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements for periods beginning on January 1, 2011. The Fund has established a project plan for implementing IFRS which includes determining:

- Changes to accounting policies and implementation decisions;
- Changes to disclosure requirements;
- Changes to information systems and accounting processes;
- Changes to internal control over financial reporting and disclosure controls and procedures;
- Training requirements; and
- External stakeholder communications.

The impact of the adoption of IFRS on the Fund's financial reporting is currently being assessed.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside our control.

Risk Related to the Business of Morneau Sobeco

Current Economic Conditions

An economic slowdown could cause demand for our services to decline. Growth in our clients' businesses may be affected by the economic environment and could therefore have an impact on the Fund's operating results. We can neither predict the impact current economic conditions will have on our future results, nor predict when the economy will show meaningful improvement. During the current economic period, our clients and potential clients may reduce or delay services or projects or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Our pricing and profitability could be adversely affected as a result.

Ability to Maintain Profitability and Manage Growth

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

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

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

Integration of Shepell•fgi

While Management believes that the operation of Morneau Sobeco and Shepell•fgi can be successfully integrated, there can be no assurance that this will be the case. Morneau Sobeco could face impediments in its ability to implement its integration strategy. In addition, there can be no assurance that unforeseen costs and expenses or other factors will not offset, in whole or in part, the expected benefits of Morneau Sobeco's integration and operating plans.

The successful integration and management of the business involves numerous risks that could adversely affect the Fund's growth and profitability, including: (i) the risk that Management may not be able to successfully manage the operations of Shepell•fgi and the integration may place significant demands on Management, diverting their attention from existing operations; (ii) the risk that the Fund's operational, financial and management systems may be incompatible with or inadequate to effectively integrate and manage the acquired systems; (iii) the risk that the acquisition may require unforeseen substantial financial resources that otherwise could be used in the development of other aspects of the business; and (iv) the risk that customers and channel partners may not be retained following the acquisition, which could be significant to the Fund's operation. The successful integration of the acquisition is also subject to the risk that personnel from the Shepell•fgi business and the existing Morneau Sobeco business may not be able to work together successfully, which could affect the operation of the combined business. Failure to successfully

integrate the operations of Morneau Sobeco and Shepell•fgi could have a material adverse effect on the Fund's business, financial condition, liquidity and results of operations.

Potential Undisclosed Liabilities Associated with Acquisition/Limited Indemnification

In connection with the acquisitions completed by the Fund, there may be liabilities and contingencies that the Fund failed to discover or was unable to quantify in its due diligence which it conducted prior to the execution of an acquisition, and the Fund may not be indemnified for some or all of these liabilities and contingencies. The existence of any material liabilities or contingencies could have a material adverse effect on the Fund's business, financial condition, liquidity and results of operations.

Reliance on Information Systems and Technology

Information systems are an integral part of Morneau Sobeco's business and the products and services offered to its clients. Morneau Sobeco relies on systems to maintain accurate records and to carry out required administrative functions in accordance with the terms of its contractual obligations to its clients. Morneau Sobeco relies on the Internet as a key mechanism for delivering services to clients and achieving efficiencies in its service model. The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and volume of traffic. As a result, its performance and reliability may decline. In order to maintain the level of security, service and reliability that clients require, Morneau Sobeco may be required to make significant investments in the online means of delivering consulting and outsourcing services. In addition, Web sites and proprietary online services have experienced service interruptions and other delays. If these outages or delays occur frequently in the future, Internet usage as a medium of exchange of information could decline and the Internet might not adequately support the firm's Web-based tools. The adoption of additional laws or regulations with respect to the Internet may impede the efficiency of the Internet as a medium of exchange of information and decrease the demand for Morneau Sobeco's services.

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

Reputational Risk

Morneau Sobeco depends, to a large extent, on its relationships with its clients and its reputation for high-quality outsourcing and consulting services. As a result, the impact of a client not being satisfied with Morneau Sobeco's services or products may be more damaging in Morneau Sobeco's business than in other businesses. Moreover, if the firm fails to meet its contractual obligations, Morneau Sobeco could be subject to legal liability and a loss of client relationships.

Dependence on Key Clients

For both the three and six months ended June 30, 2009, Morneau Sobeco's largest client accounted for approximately 5% of revenue (three and six months ended June 30, 2008- 7% and 9%) and the top 10 clients accounted for approximately 23% and 22% of the total revenue for the three and six months ended June 30, 2009 (for the three and six months ended June 30, 2008 – 26% and 27%). As clients may terminate engagements with minimal notice, there can be no assurance that Morneau Sobeco will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Sobeco's services in the future. Any negative change involving any of Morneau Sobeco's largest clients, including but not limited to a client's financial condition or desire to continue using the firm's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Risk of Future Legal Proceedings

Morneau Sobeco may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions. Morneau Sobeco's business involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from:

(i) a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding;
(ii) a claim that inaccurate data was used, which could lead to an underestimation of plan liabilities; or
(iii) a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, which could lead to overpayments to beneficiaries.

The employee health and productivity services involve confidential counseling, occupational health activities and case management. Each of these activities could potentially put the Fund in conflict with its customers, their employees, or both. Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Sobeco's actions.

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

Reliance on Key Professionals

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

Reliance on Service Providers

Morneau Sobeco relies on a network of independent service providers to provide its EAP services to clients in numerous countries. There can be no assurance that the cost of retaining these service providers in the future will not increase or that any increases can be passed on to the clients. In addition, some of EAP service providers in certain jurisdictions have, in the past, become its competitors. This could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Relationships with Channel Partners

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

financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Competition

Morneau Sobeco operates in a highly competitive North American market. As a result, Morneau Sobeco competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Sobeco competes. In addition, some of Morneau Sobeco's competitors have substantially more financial resources and/or financial flexibility than Morneau Sobeco. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Sobeco’s business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Legislative and Regulatory Changes

The business of pension and benefits consulting and outsourcing is highly regulated and laws are constantly evolving. Currently the provisions of employee health and productivity services are not generally subject to government regulation. However, there is no certainty that regulation will not be introduced as governments in these countries adjust their policies and practices in the health care industry.

Any changes to laws, rules, regulations or policies could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Changes in Business Conditions

Morneau Sobeco's future success depends, in part, on its ability to develop and implement technology solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. The firm may not be successful in anticipating or responding to these developments on a timely basis and its ideas may not be accepted in the marketplace. The effort to gain technological expertise and develop new technologies in its business requires Morneau Sobeco to incur significant expenses. If Morneau Sobeco cannot offer new technologies as quickly as its competitors, or if the competition develops more cost-effective technologies, Morneau Sobeco could lose market share. Also, products and technologies developed by Morneau Sobeco’s competitors may make the firm’s service or product offerings non-competitive or obsolete. Any one of these circumstances could have a material adverse effect on Morneau Sobeco's ability to obtain and fulfill important client engagements, and thus could have a material adverse effect on Morneau Sobeco’s business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Timely Completion of Projects and Performance of Obligations

In its contracts with clients, Morneau Sobeco is sometimes committed to complete a project by a scheduled date. If the project is not completed by the scheduled date, Morneau Sobeco may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to the late completion. Morneau Sobeco's success depends in large part on whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Sobeco fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Sobeco. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Timing of Revenue Collection Related to Fixed-Price Contract with Predetermined Threshold

The Fund recognizes certain revenues related to the EAP services that arise when clients' usage exceeds predetermined thresholds. Frequently, these revenues cannot be billed and collected until the anniversary date of the agreement. The time delay between earning this revenue and collecting it potentially increases the risk of not collecting on these unbilled receivables, which may negatively affect the ability of the Fund to make distribution on the Units.

Implications of Fixed-Price Contracts

A portion of Morneau Sobeco's revenue comes from fixed-price contracts. A fixed-price contract requires Morneau Sobeco to perform either all or a specified portion of work under the contract for a fixed price. Fixed-price contracts expose Morneau Sobeco to a number of risks, including underestimation of costs, ambiguities in specifications, unforeseen costs or difficulties, problems with new technologies, delays beyond the control of Morneau Sobeco, failures of subcontractors to perform, and economic or other changes that may occur during the contract period. Increasing use of fixed-price contracts and/or increasing the size of such contracts would increase Morneau Sobeco's exposure to these risks. Losses under fixed-price contracts could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Confidentiality of Client Information

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

Foreign Exchange Risk

A portion of Morneau Sobeco's sales are in U.S. dollars and thus Morneau Sobeco is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. During 2009, the Fund entered into a series of foreign exchange contracts to reduce its exposure to currency fluctuations over the next two years. As at June 30, 2009, the aggregate amount of foreign exchange contracts outstanding was $11.9 million, compared to $16.7 million at December 31, 2008. As the Fund does not account for these forward contracts using hedge accounting, these contracts are measured at fair value with changes recognized in net income. The unrealized gain as at June 30, 2009 was $ nil, compared to a loss of $0.8 million as at December 31, 2008. The net revenue exposure after accounting for related expenses denominated in U.S. dollars less amounts under foreign exchange contracts was approximately US$ $0.1 million and $nil million for the three and six months ended June 30, 2009, respectively, compared to US$1.5 million and US$2.7 million for the same period in 2008. An increase in foreign revenues would expose the Fund to fluctuations in exchange rates which may have a material adverse effect on Morneau Sobeco's business, financial condition, and operating results, and on the ability of the Fund to make distributions on the Units.

Interest Rate Fluctuations

Morneau Sobeco may be exposed to fluctuations in interest rates under its borrowings. Interest-rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt outstanding and related overall cost of borrowing. Increases in interest rates may have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Protection of Intellectual Property

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

Rising Insurance Costs

The cost of maintaining professional errors and omissions insurance as well as director and officer liability insurance is significant. Morneau Sobeco could experience higher insurance premiums as a result of adverse claims experience or because of general increases in premiums by insurance carriers for reasons unrelated to its own claims experience. Generally, Morneau Sobeco's insurance policies must be renewed annually. Its ability to continue to obtain insurance at affordable premiums depends upon its ability to continue to operate with an acceptable claims record. A significant increase in the number of claims, the existence of one or more claims in excess of its policy limits or the inability to obtain adequate insurance coverage at acceptable rates, or at all, could have a material adverse effect on Morneau Sobeco’s business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Risk Related to the Structure of the Fund

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which may adversely affect the Unitholders.

The Fund’s Declaration of Trust provides that a sufficient amount of the Fund’s net income and net realized capital gains shall be distributed each year to Unitholders in order to eliminate the Fund’s liability for tax under Part 1 of the *Income Tax Act (Canada)*. Where such amount of net income and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Units. Unitholders are generally required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts received Royal Assent. Certain income of (and distributions made by) the Fund will be taxed in a manner similar to income earned by (and distributions made by) a corporation in the 2011 taxation year.

As a result, the Fund has recognized a $2.7 million future income tax liability as at June 30, 2007 on temporary differences in the reported amounts for financial statement and tax purposes in the intangible and capital assets. The Fund will be liable for income tax at a rate of 29.5% on its taxable income earned in 2011 and 28.0% thereafter.

This legislation is effective for the 2007 taxation year with respect to trusts which commenced public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006.

On December 15, 2006, the Department of Finance (Canada) released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly traded Units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the proposed rules.

On December 20, 2007, the Department of Finance (Canada) announced technical amendments to clarify certain aspects of the new rules (which, as discussed above, will be effective on January 1, 2011, subject to compliance with the normal growth guidelines). One of the amendments is intended to exempt from the new rules a subsidiary partnership that (i) is not publicly traded, and (ii) is wholly-owned by a publicly traded trust or partnership, a taxable Canadian corporation or a combination of these entities. Although the MS Group LP is not publicly traded, the amendments do not appear to exempt a partnership with individual partners. Legislation implementing these amendments was included in Bill C-10 which received royal assent on March 12, 2009. However, the Fund believes that the MS Group LP will not be subject to tax under the new rules prior to January 2011, assuming that the Fund complies with the normal growth guidelines.

On December 4, 2008, the Department of Finance (Canada) announced an acceleration of the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT under the safe harbour rule is 100% of its October 31, 2006 market capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subjected to the Normal Growth Guidelines).

This legislation may adversely affect the marketability of the Fund’s Units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the SIFT Rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

Conversion to Corporate Structure

The Department of Finance has released legislation facilitating tax deferred conversion of SIFTs to corporations. The Fund has commenced the process of considering its options with respect to converting to a corporate structure. Currently we have no plans to convert prior to December 31, 2010.

Dependence on Morneau Sobeco Group LP and Its Subsidiaries

The Fund is an unincorporated open-ended, limited purpose trust that is entirely dependent on the operations and assets of the Trust. Cash distributions to Unitholders will be dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which, in turn, are dependent on MS Group LP making cash distributions. MS Group LP's ability to make cash distributions is dependent on the ability of its subsidiaries to make cash distributions or other payments or advances. This will be subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities, including restrictive covenants in the credit facilities.

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

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by MS Group LP's businesses or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, will be entirely dependent on the

operations and assets of MS Group LP (and its subsidiaries), and will be subject to various factors including each of its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements. The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Restrictions on Potential Growth

The payout by Morneau Sobeco of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Morneau Sobeco and its cash flow.

Nature of Units

The Units share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the businesses of Morneau Sobeco and should not be viewed by investors as direct securities of HRCO Inc. or its subsidiaries. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights of dissent. The Units represent a fractional interest in the Fund. The Fund's primary assets are Trust Units and Trust Notes.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act (Canada)* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation, as it does not carry on or intend to carry on the business of a trust company.

Market Price of Units

Publicly traded investment trusts such as the Fund do not necessarily trade at prices determined solely by reference to the underlying value of their investments. Increases in market rates of interest may lead purchasers to demand a higher yield on the Units, which may adversely affect their price. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and other factors beyond the Fund's control.

The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be material. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Leverage and Restrictive Covenants in Agreements Relating to Indebtedness of Morneau Sobeco

The ability of the Trust and its subsidiaries to make distributions or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities. The degree to which MS Group LP or Morneau Sobeco is leveraged could have important consequences to the Unitholders including: Morneau Sobeco's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Sobeco's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Sobeco to the risk of increased interest rates; and Morneau Sobeco may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of Standardized Distributable Cash to interest rate variations.

The advance of the new credit facilities at the closing of the Shepell•fgi acquisition has significantly increased the amount of Morneau Sobeco’s debt compared to historical levels. The new credit facilities contain numerous restrictive covenants that limit the discretion of Management with

respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Sobeco to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidated with another entity. In addition, the new credit facilities contain a number of financial covenants that require Morneau Sobeco to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in Morneau Sobeco's credit facilities could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by Morneau Sobeco and permit acceleration of the relevant indebtedness. If the indebtedness under the new credit facilities were to be accelerated, there can be no assurance that the assets of Morneau Sobeco would be sufficient to repay in full that indebtedness. In addition, the new credit facilities mature on June 1, 2012. There can be no assurance that future borrowings or equity financing will be available to the Fund or Morneau Sobeco, or available on acceptable terms, in an amount sufficient to fund the Fund's or Morneau Sobeco's needs.

Dilution of Existing Unitholders and MS Group LP Unitholders

The Fund's Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund in connection with the indirect exchange of the Class B MS Group LP Units. In addition, MS Group LP is permitted to issue additional MS Group LP Units for any consideration and on any terms and conditions.

Morneau Sobeco has the option to satisfy up to $4.5 million owing under the promissory note due July 2, 2010, issued in connection with Morneau Sobeco's acquisition of the business of Shepell•fgi, in the form of newly-issued Fund Units. Issuances of additional Fund Units will dilute an investor's investment in Morneau Sobeco, which may adversely affect the market price of the Fund Units.

Distribution of Securities on Redemption or Termination of the Fund

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Upon redemption of Units or termination of the Fund, the Trustees may distribute the Trust Notes and Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. Trust Units and Trust Notes so distributed may not be qualified investments for registered plans (i.e., trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the *Income Tax Act* (Canada)**,** depending upon the circumstances at the time. There is currently no market for the Trust Notes and the Trust Units.

Future Sales of Units by the Management Securityholders

The Management Securityholders hold all of the Class B LP Units, representing in aggregate 11.8% of the outstanding MS Group LP Units, which, pursuant to the Exchange Agreement, can be exchanged for Units at any time, subject to certain conditions. Certain of the Management Securityholders have also been granted certain registration rights by the Fund. If the Management Securityholders sell a substantial number of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also contribute to a decline in the market price of the Units.

Restrictions on Certain Unitholders and Liquidity of Units

The Fund's Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning either more than 40% of Units and/or the Special Voting Units (on non-diluted and fully diluted bases). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents of Canada and U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete takeover bids in respect of the Units. As

a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Statutory Remedies

The Fund is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and in some cases, the *Winding- up and Restructuring Act*. As a result, in the event that a restructuring of the Fund is necessary, the Fund and its stakeholders may not be able to access the remedies and procedures available thereunder.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Operating results, distribution summary and condensed balance sheet history are as follows:

Operating Results, Distribution and Condensed Balance Sheets
Selected Unaudited Consolidated Financial Information (In thousands of dollars except per unit amounts)

Quarter ended	June 30 2009	March 31 2009	December 31 2008	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007
Revenue	$84,903	$81,756	$82,298	$75,918	$52,363	$39,134	$36,707	$37,231
Net income (loss)	3,288	(531)	3,001	557	2,456	2,780	4,489	2,907
Standardized EBITDA	15,987	12,335	17,301	13,933	10,486	8,389	7,391	7,481
Standardized EBITDA margin	18.8%	15.1%	21.0%	18.4%	20.0%	21.4%	20.1%	20.1%
Standardized Distributable Cash (1)	45	5,697	16,079	3,345	8,182	(258)	7,812	8,097
Adjusted Consolidated Distributable Cash	11,416	9,179	14,931	11,133	9,730	7,700	7,025	6,515
Distributions declared	11,234	10,224	9,661	9,629	7,296	6,132	6,131	6,131
Net income (loss) per Unit (basic)	0.078	(0.015)	0.085	0.016	0.093	0.125	0.203	0.132
Net income (loss) per Unit (diluted)	0.078	(0.015)	0.085	0.016	0.091	0.125	0.203	0.132
Standardized EBITDA per Unit (basic)	0.336	0.296	0.423	0.342	0.329	0.302	0.266	0.269
Standardized Distributable Cash per Unit (basic) (1)	0.001	0.158	0.455	0.095	0.310	(0.012)	0.352	0.366
Adjusted Consolidated Distributable Cash per Unit (basic)	0.236	0.220	0.365	0.273	0.305	0.277	0.253	0.234
Distributions declared per Unit (basic)	0.236	0.236	0.236	0.236	0.226	0.221	0.221	0.221
Standardized Distributable Cash Payout Ratio (basic) (2)	NM	156.0%	51.9%	248.6%	73.9%	NM	62.6%	60.2%
Adjusted Consolidated Distributable Cash Payout Ratio(3)	98.4%	111.4%	64.7%	86.5%	75.0%	79.6%	87.3%	94.1%
Twelve-month rolling Standardized Distributable Cash Payout Ratio (4)	140.9%	94.9%	101.0%	126.2%	87.0%	90.8%	92.7%	95.0%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	87.3%	81.8%	75.2%	81.8%	82.9%	86.2%	86.0%	85.9%
Total assets	$677,847	$682,664	$689,865	$683,273	$688,804	$328,665	$334,428	$337,391
Total long-term debt	$158,652	$135,535	135,418	135,280	135,162	34,926	34,913	34,901

(1) The Standardized Distributable Cash for the three months ended March 31, 2008 was negative as the Fund paid its employees all of their annual bonuses in the first quarter of that year. For the three months ended March 31, 2009 the Fund paid a portion of the annual bonuses in the first quarter and the remaining paid in the second quarter.
For the three months ended September 30, 2008 the amount declined primarily due to the seasonality in the billing terms related of the EAP contracts, timing of our customer payments and the funding of long term incentive plan awards for new hires in 2008 as a result of the Shepell•fgi acquisition.

(2) This ratio is not presented for the quarter ended June 30, 2009 and March 31, 2008 since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure or close to break even.

(3) The Adjusted Consolidated Distributable Cash payout ratio for the three months ended March 31, 2009 was 111.4% as a result of the timing of the EAP revenue.

(4) The twelve-month rolling Standardized Distributable Cash payout ratio ended June 30, 2009 was 140.9% which reflects the growth in receivables in line with revenue growth and the seasonality of the Shepell•fgi business. In December 31, 2008 this payout ratio was 101.0%. At year end, receivables were $2.4 million higher than normal due to delayed payments from one of our large outsourcing clients. This amount was subsequently collected after our year end. Removing the effect of the late payment, the Standardized Distributable Cash Payout Ratio for the year ended December 31, 2008 would have been 93.6 %.

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at June 30, 2009.

Internal control over financial reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at June 30, 2009.

No changes were made in the Fund's internal controls over financial reporting during the second quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

Additional Information

The Fund's Units trade on the Toronto Stock Exchange under the symbol MSI.UN. Additional information relating to the Fund, including all public filings, is available on the SEDAR Web site (www.sedar.com) and on our own Web site at www.morneausobeco.com.
The content of this MD&A reflects information known as of August 12, 2009.

HUMAN RESOURCE CONSULTING AND
ADMINISTRATIVE SOLUTIONS

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

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