MANAGEMENT'S DISCUSSION AND ANALYSIS

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 ("IPO").

This Management's Discussion and Analysis ("MD&A") covers the year ended December 31, 2008 and should be read in conjunction with the accompanying Audited Consolidated Financial Statements of the Fund and notes thereto for the year ended December 31, 2008 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, 2007.

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 35,380,524 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 86.1% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership, HRCO Inc. and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 13.9% 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.

On June 2, 2008, the Fund indirectly acquired substantially all the assets of Shepell FGI LP ("Shepell•fgi") from Clairvest Group Inc. and its partners. The Canadian Shepell•fgi business has been incorporated into HRCO Inc. (formerly Morneau Sobeco Corporation), a 100% owned subsidiary of MS Group LP. The US Shepell•fgi business has been amalgamated with Morneau Sobeco, Ltd. The acquisition was partially financed by the issuance of 12,750,000 the Fund's Units for proceeds of $153 million, net of underwriters' fees and estimated issuance expenses of approximately $10.3 million.

On June 30, 2008 and on December 1, 2008, the Fund issued 242,997 and 242,994 Class B LP Units, respectively in connection with the settlement of the second and third instalments of the Heath Benefit Consulting Inc. acquisition completed in June 2006.

On October 1, 2008, a subsidiary of the Fund acquired all the issued and outstanding shares of Leong & Associates Actuaries And Consultants Inc. ("Leong & Associates"), a British Columbia based business and one of the largest independent actuarial and pension consulting firms in Western Canada. As part of the consideration for the first instalment the Fund issued 56,764 Class B LP Units.

As at December 31, 2008, 35,380,524 Units and 5,696,591 Special Voting Units of the Fund were issued and outstanding, and 5,696,591 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.

As a result of the acquisition of the business of Shepell•fgi, the firm offers employee assistance program ("EAP") services. The terms of many EAP client agreements require payment of a minimum retainer and incremental usage-based fees. The remainder of 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 (legal and audit) and insurance.

SUMMARY AND OUTLOOK

The results of 2008 met our expectations, from both a revenue and profitability standpoint. They include the results from the acquisition of Shepell•fgi which closed on June 2, 2008 and the results from the acquisition of Leong & Associates which closed on October 1, 2008. For the year ended December 31, 2008 revenue growth was 69.8%. Net Income for the year ended December 31, 2008 was $8.8 million. Our Standardized EBITDA margin for the year ended December 31, 2008 remained strong at 20.1%. Adjusting for the salary component of the Heath acquisition[1] in the amount of $1.2 million for the year ended December 31, 2008 and in the amount of $1.0 million for the year ended December 31, 2007, the EBITDA margin was 20.6% for the year ended December 31, 2008 compared to 21.5% for the same period in 2007. Standardized EBITDA per Unit (basic) for the year ended December 31, 2008 was $1.417 which represents an increase of 27.7% over the same periods in 2007. Adjusted Consolidated Distributable Cash per Unit (basic) grew 21.2% over the same period and reflects the structure and accretion of the Shepell•fgi and Leong & Associates acquisitions.

During the second quarter, we completed our acquisition of Shepell•fgi for a total purchase price of $320.1 million including estimated transaction cost of $1.4 million. The consideration was satisfied by cash of $247.4 million and two non-interest bearing promissory notes of $75 million and $4.5 million repayable on July 2, 2009 and July 2, 2010, respectively. The promissory notes have been recorded at their combined present value of $71.4 million. The integration is proceeding as planned. In addition, as a result of the transaction being an asset purchase, a subsidiary of the Fund has approximately $224 million of eligible tax deductions which are deductible from taxable income at 7% per annum on a declining balance basis. Management believes the net present value of these tax deductions to be approximately $25 million and that they will result in substantial tax savings of approximately $15 million in 2011, with additional benefits beyond. As a result of these savings, the Fund is favorably positioned post 2010, when the tax treatment of income funds changes.

(1) On June 1, 2006, the Fund indirectly acquired all of the issued and outstanding shares of Heath Benefits Consulting Inc. ("Heath"). A portion of the purchase price, which is conditional on the continuing employment of certain selling shareholders, is being recorded as salary expense over the required employment period to December 2008.

We believe the acquisition of Shepell•fgi is transformational to the Fund. While Shepell•fgi has many of the key attributes of the Morneau Sobeco business - a blue chip client base, stable and recurring revenue, and predictable cash flows. It brings together the strong consulting skills of Morneau Sobeco with the largest EAP provider in Canada. Together we believe we are ideally positioned to assist employers in managing their concerns of employee health, absenteeism and disability. Demand for these Health Management services is robust and was the fastest growing area of our firm in 2008.

To strengthen our position in Western Canada as pension advisors, on October 1, 2008, we acquired all the issued and outstanding shares of Leong & Associates, a British Columbia based business and one of the largest independent actuarial and pension consulting firms in Western Canada. The purchase price is contingent on business results, and is expected to be $7.6 million. This acquisition is immediately accretive to our Adjusted Consolidated Distributable Cash per Unit.

The acquisition and integration of Shepell•fgi and Leong & Associates are meeting our positive expectations. We have had favourable results and we continue to see strong market opportunities.

In addition to expanding our service offerings and Canadian presence, we announced our alliance with Sibson Consulting (“Sibson”) a division of Segal Company during the second quarter. This announcement reflects our goal to strengthen our presence in the US market through alliances with a firm offering complementary services. Sibson will turn to Morneau Sobeco to offer employee benefits administration outsourcing services to its clients in the U.S. Likewise, Morneau Sobeco will refer U.S. consulting mandates to Sibson. Since forming of the alliance, Morneau Sobeco and Sibson have been working on joint proposals for mutual and prospective clients.

In order to manage the increased scope of our organization and to capitalize on opportunities for continued growth, the Fund also made significant management additions in 2008. Alan Torrie, previously a Trustee of the Fund, and previously a member of the advisory board of Shepell•fgi, became President of the Fund on January 30, 2008. Additionally, Stephen Liptrap was added to the leadership team as Executive Vice President of Human Resources. Key leaders of Shepell•fgi were retained in senior positions of the Fund, and two new senior leadership team appointments were made in the consulting and outsourcing operations.

Our financial results reflect our continuing stability. A continuing economic slowdown could cause demand for our services to decline, although we believe that some of our services could be positively impacted by the economic situation. For example employee usage of EAP services will likely increase during stressful times, while pension committees may require additional services as they consider financial stress in their pension plan.

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.

As a result of the Shepell•fgi acquisition, which is immediately accretive to the Fund's distributions to Unitholders, the Board of Trustees authorized a 7% increase to our target monthly distribution from $0.07356 per Unit to $0.07871 per Unit effective to Unitholders of record on June 30, 2008.

The following table presents excess / (shortfall) cash flow from operating activities and net income over distributions to Unitholders for the year ended December 31, 2008, 2007 and 2006.

(In thousands of dollars)	**Year Ended December 31, 2008**	**Year Ended December 31, 2007**	**Year Ended December 31, 2006**
Cash flow from operating activities	$ 35,295	$ 27,878	$ 31,023
Net income	8,796	12,120	13,973
Distributions to Unitholders, including Class B LP Units	32,718	24,257	23,134
Excess of cash flow from operating activities over distributions	2,577	3,621	7,889
(Shortfall) of net income from operating activities over distributions	(23,922)	(12,137)	(9,161)

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 Standardized Distributable Cash Payout Ratios for the year ended December 31, 2008 was 101.0% compared to 92.7% for the same period in 2007. The increase in the above ratio is mainly due to an unfavorable change in non-cash operating working capital. This change was primarily the result of growth in receivables and unbilled fees in line with revenue growth in the outsourcing business and the seasonality in the billing terms related of the EAP contracts and increased prepaid expenses due to the funding of our long term incentive plan for awards for new hires in 2008 as a result of the Shepell•fgi acquisition. In addition, our receivables at year end 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 %.

The Adjusted Consolidated Distributable Cash Payout Ratio for the year ended December 31, 2008 was 75.2% compared to 86.0% for the same period in 2007. The favorable decline in the above ratios is due to the Shepell•fgi and Leong & Associates acquisitions which, as expected, have provided a positive impact on the Fund's Adjusted Consolidated Distributable Cash.

ANALYSIS OF 2008 OPERATING RESULTS

Results of Operations	**Three Months Ended December 31**		**Year Ended December 31**	
Selected Unaudited Consolidated Financial Information	**2008**	**2007**	**2008**	**2007**
(In thousands of dollars except per unit amounts)				
Revenue	**$ 82,298**	$ 36,707	**$ 249,713**	$ 147,086
Deduct:				
Salary, benefit and contractor expenses	**51,127**	22,027	**156,707**	87,987
Other operating expenses	**13,870**	7,289	**42,895**	28,256
Interest	**4,150**	613	**11,172**	1,718
Amortization of capital and intangible assets	**11,384**	4,587	**34,060**	17,674
Income taxes expense (recovery)	**(1,709)**	(3,444)	**(5,662)**	(3,788)
Non-controlling interest	**475**	1,146	**1,745**	3,119
Net income for the period	**3,001**	4,489	**8,796**	12,120
Add (deduct):				
Amortization of capital and intangible assets	**11,384**	4,587	**34,060**	17,674
Income taxes expense (recovery)	**(1,709)**	(3,444)	**(5,662)**	(3,788)
Interest	**4,150**	613	**11,172**	1,718
Non-controlling interest	**475**	1,146	**1,745**	3,119
Standardized EBITDA[1]	**$ 17,301**	$ 7,391	**$ 50,111**	$ 30,843
Standardized EBITDA margin	**21.0%**	20.1%	**20.1%**	21.0%
Cash from operating activities	**$ 20,060**	$ 10,012	**$ 35,295**	$ 27,878
Deduct: Capital expenditures	**1,434**	197	**3,081**	1,703
Consolidated Distributable Cash [2]	**18,626**	9,815	**32,214**	26,175
Deduct: Consolidated Distributable Cash available to non-controlling interest	**2,547**	2,003	**4,865**	5,358
Standardized Distributable Cash (available for Unitholders) [3]	**$ 16,079**	$ 7,812	**$ 27,349**	$ 20,817
Consolidated Distributable Cash [2]	**$ 18,626**	$ 9,815	**$ 32,214**	$ 26,175
Add (deduct): Changes in Non-cash operating working capital	**(3,695)**	(2,790)	**11,280**	2,028
Adjusted Consolidated Distributable Cash [4]	**$ 14,931**	$ 7,025	**$ 43,494**	$ 28,203
Net income per Unit (basic and diluted)	**$ 0.085**	$ 0.203	**$ 0.295**	$ 0.549
Standardized EBITDA per Unit (basic)	**$ 0.423**	$ 0.266	**$ 1.417**	$ 1.110
Standardized Distributable Cash per Unit (basic)	**$ 0.455**	$ 0.352	**$ 0.917**	$ 0.942
Adjusted Consolidated Distributable Cash per Unit (basic)	**$ 0.365**	$ 0.253	**$ 1.230**	$ 1.015
Standardized Distributions declared per Unit (basic)	**$ 0.236**	$ 0.221	**$ 0.919**	$ 0.873
Standardized Distributable Cash Payout Ratio [5]	**51.9%**	62.6%	**101.0%**	92.7%
Adjusted Consolidated Distributable Cash Payout Ratio [6]	**64.7%**	87.3%	**75.2%**	86.0%

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.

ANALYSIS OF 2008 ANNUAL RESULTS

Revenue

Revenue for the year ended December 31, 2008 increased by $102.6 million, or 69.7%, to $249.7 million compared to $147.1 million for the same period in 2007. The increase in revenue was primarily due to revenue related to the acquired businesses of Shepell•fgi of $86.2 million, Leong & Associates of $0.8 million, and Cowan DB business[2] of $2.4 million as well as additional outsourcing, EAP and Health Management business from a variety of clients.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the year ended December 31, 2008 increased by $68.7 million, or 78.1%, to $156.7 million compared to $88.0 million for the same period in 2007. The increase was attributable to salary, benefit and contractor costs of $58.7 million due to the Shepell•fgi acquisition, $0.3 million due to the Leong & Associates acquisition, $1.2 million due to the Cowan DB business acquisition, $0.2 million adjustment related to Heath salary component and general increases of $8.3 million as a result of a 5.1% growth in the number of employees with respect to the outsourcing business and general merit increases.

Other Operating Expenses

Other operating expenses for the year ended December 31, 2008 increased by $14.6 million or 51.6%, to $42.9 million compared to $28.3 million for the same period in 2007. The increase was primarily attributable to operating expenses of $12.2 million related to Shepell•fgi, $0.2 million related to the Leong & Associated and Cowan DB business acquisitions, increased occupancy expenses of $1.1 million due to various office expansions and relocations, non-recurring integration and other expenses of $0.4 million as well as general increases of $1.0 million.

Interest Expense

Interest expense for the year ended December 31, 2008 increased by $9.5 million to $11.2 million compared to $1.7 million for the same period in 2007. The increase was primarily due to higher interest expense of $4.0 million on the new credit facility obtained to finance the Shepell•fgi acquisition, accretion interest of $4.2 million on the promissory notes issued as part of the acquisition, $0.3 million in losses incurred related to the termination of the interest rate swap agreements and the write off of debt issue costs associated with the previous term loan and amortization of $0.3 million debt issue costs related to new debt. In addition, the Fund recognized a loss of $0.8 million during the first quarter of 2008 due to the change in the market value of the interest-rate swaps, compared to a loss of $0.1 million for the year ended December 31, 2007.

Amortization of Capital and Intangible Assets

Amortization for the year ended December 31, 2008 increased by $16.4 million, or 92.7%, to $34.1million compared to $17.7 million for the same period in 2007. The increase was primarily attributable to the increase in capital and intangible assets as a result of the acquisition of Shepell•fgi on June 2, 2008.

(2) On June 1, 2007, a subsidiary of the Fund directly acquired certain assets, liabilities and contracts of the defined benefit pension administration and actuarial consulting practices ("Cowan DB business") of Cowan Benefits Consulting Limited, a benefits consulting firm based in the Waterloo region, in Ontario.

Income Tax Expense (Recovery)

Income tax recovery for the year ended December 31, 2008 increased by $1.9 million to $5.7 million compared to income tax recovery of $3.8 million for the same period in 2007. The increase was primarily attributable to the taxable loss generated by a taxable subsidiary due to the availability of the eligible tax deductions and revised capital structure resulting from the acquisition of Shepell•fgi.

Net Income

As a result of the changes noted above, the net income for the year ended December 31, 2008 was $8.8 million compared to the net income of $12.1 million for the same period in 2007.

Cash from Operating Activities

Cash from operating activities for the year ended December 31, 2008 increased by $7.4 million to $35.3 million compared to $27.9 million for the same period in 2007. This increase was primarily due to increased Standardized EBITDA of $19.3 million and change in fair value of foreign exchange contract of $0.8M. This is offset by decreased changes in non-cash operating working capital of $9.3 million (see below) and increased interest payments of $4.0 million related to the Fund's new debt and revolving loan.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the year ended December 31, 2008 increased by $9.3 million to a use of cash of $11.3 million compared to $2.0 million for the same period in 2007. The increase was primarily attributable to increased receivables and unbilled fees of $10.5 million due to growth in the outsourcing business and the billing terms related to the EAP contracts, timing of payment from one large outsourcing client of $2.4 million, decreased changes in deferred revenue related to the billing of a portion of the EAP contracts of $1.5 million, increased prepaid expenses of $1.4 million partially due to the funding of long term incentive plan amounts awarded related to the acquisitions of Shepell•fgi and Leong & Associates. This was partially offset by increases in accounts payable and accrued liabilities of $4.6 million related to the timing of supplier payments, additional interest accruals due to new credit facilities and other non-recurring accruals.

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

Standardized EBITDA

Standardized EBITDA for the year ended December 31, 2008 increased by $19.3 million, or 62.7%, to $50.1 million compared to $30.8 million for the same period in 2007. The increase was due to increased revenue of $102.6 million offset by increased salary, benefit and contractor expenses and other operating expenses of $83.4 million.

Standardized Distributable Cash

Standardized Distributable Cash for the year ended December 31, 2008 increased by $6.5 million to $27.3 million compared to $20.8 million for the same period in 2007. This increase was primarily due to increased cash from operating activities of $7.4 million net of a decrease of $0.5 million in Consolidated Distributable Cash available to non-controlling interest, which was partially offset by a increased capital expenditures of $1.4 million due to additional technology spending of $1.3 million to support the growth in the outsourcing and EAP businesses.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the year ended December 31, 2008 increased by $15.3 million to $43.5 million compared to $28.2 million for the same period in 2007. The increase was primarily due to increased Standardized EBITDA of $19.3 million. This was partially offset by additional interest paid of $4.0 million and increased capital expenditures of $1.4 million (see above).

ANALYSIS OF 2008 FOURTH QUARTER RESULTS

Revenue

Revenue for the three months ended December 31, 2008 increased by $45.6 million, or 124.2%, to $82.3 million compared to $36.7 million for the same period in 2007. The increase in revenue was primarily due to revenue related to the acquired businesses of Shepell•fgi of $38.1 million and Leong & Associates of $0.8 million as well as additional outsourcing, EAP and Health Management business from a variety of clients.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the three months ended December 31, 2008 increased by $29.1 million, or 132.3%, to $51.1 million compared to $22.0 million for the same period in 2007. The increase was attributable to increased salary, benefit and contractor costs of $25.1 million due to the Shepell•fgi acquisition, $0.3 million due to the Leong & Associates acquisition and general increases of $3.7 million due to a 2.1% growth in the number of employees with respect to the outsourcing business and general merit increases.

Other Operating Expenses

Other operating expenses for the three months ended December 31, 2008 increased by $6.6 million or 90.4%, to $13.9 million compared to $7.3 million for the same period in 2007. The increase was primarily attributable to operating expenses of $4.6 million related to Shepell•fgi, increased occupancy expenses of $0.4 million due to various office expansions, a foreign exchange loss of $0.5 million as a result of fair value adjustments related to foreign exchange forward contracts, higher capital tax expenses of $0.3 million as a result of the structure of the Shepell•fgi, acquisition, non-recurring integration and other expenses of 0.4 milllion as well as general increases of $0.4 million.

Interest Expense

Interest expense for the three months ended December 31, 2008 increased by $3.5 million to $4.1 million compared to $0.6 million for the same period in 2007. The increase was primarily due to higher interest expense of $1.8 million on the new credit facility obtained to finance the Shepell•fgi acquisition, accretion interest of $1.8 million on the promissory notes issued as part of the acquisition and amortization of $0.1 million of debt issue costs related to the new debt. This was partially offset by $0.2 million of gain due to the change in the fair market value of the interest-rate swaps for the three months ended December 31, 2008.

Amortization of Capital and Intangible Assets

Amortization for the three months ended December 31, 2008 increased by $6.8 million, or 147.8%, to $11.4 million compared to $4.6 million for the same period in 2007. The increase was attributable to the increase in capital and intangible assets as a result of the acquisitions of Shepell•fgi on June 2, 2008 and Leong & Associates on October 1, 2008.

Income Tax Expense (Recovery)

Income tax recovery for the three months ended December 31, 2008 decreased by $1.7 million to $1.7 million compared to income tax recovery of $3.4 million for the same period in 2007. The decrease was primarily attributable to favorable change in rates in the same quarter last year of $2.9 million offset by taxable loss generated by a taxable subsidiary due to the availability of the eligible tax deductions and revised capital structure resulting from the acquisition of Shepell•fgi.

Net Income

As a result of the changes noted above, the net income for the three months ended December 31, 2008 was $3.0 million compared to the net income of $4.5 million for the same period in 2007.

Cash from Operating Activities

Cash from operating activities for the three months ended December 31, 2008 increased by $10.1 million to $20.1 million compared to $10.0 million for the same period in 2007. This increase was primarily due to increased Standardized EBITDA of $9.9 million, a change in the fair value of foreign exchange contracts of $0.8M and increased changes in non-cash operating working capital of $0.9 million (see below). This was partially offset by increased interest payments of $1.6 million related to the Fund's new debt.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended December 31, 2008 increased by $0.9 million to $3.7 million compared to $2.8 million for the same period in 2007. The increase was primarily due to a decrease in prepaid expenses of $1.7, increased income tax recoverable of $0.5 million and an increase of $4.8 million in accounts payable and accrued liabilities. This was partially offset by increased receivables and unbilled fees of $5.6 million due to the growth in the outsourcing business and the billing terms related to EAP contracts, the timing of payment from one large outsourcing client of $2.4 million, and decreased changes in deferred revenue related to the billing of the EAP contracts of $0.4 million.

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

Standardized EBITDA

Standardized EBITDA for the three months ended December 31, 2008 increased by $9.9 million, or 133.8%, to $17.3 million compared to $7.4 million for the same period in 2007. The increase was due to increased revenue of $45.6 million offset by increased salary, benefit and contractor expenses and other operating expenses of $35.7 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended December 31, 2008 increased by $8.3 million to $16.1 million compared to $7.8 million for the same period in 2007. This increase was primarily due to increased cash from operating activities of $10.1 million, which was partially offset by increased capital expenditures of $1.2 million primarily due to additional technology spending of $0.9 million to support the growth in the outsourcing and EAP businesses and an increase of $0.5 million in the Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the three months ended December 31, 2008 increased by $7.9 million to $14.9 million compared to $7.0 million for the same period in 2007. The increase was primarily due to increased Standardized EBITDA of $9.9 million. This was partially offset by additional interest paid of $1.6 million due to the new debt and increased capital expenditures of $1.2 million (see above).

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 December 31		Year Ended December 31	
	2008	**2007**	**2008**	**2007**
Cash provided by (used in):				
Operating activities	**$ 20,060**	$ 10,012	**$ 35,295**	$ 27,878
Investing activities	**(5,276)**	(197)	**(257,026)**	(5,230)
Financing activities	**(12,437)**	(6,732)	**218,329**	(25,007)
Increase (decrease) in cash	**$ 2,347**	$ 3,083	**$ (3,402)**	$ (2,359)

2008 Annual Results

Cash from operating activities for the year ended December 31, 2008 increased by $7.4 million to $35.3 million compared to $27.9 million for the same period in 2007. This increase was primarily due to increased Standardized EBITDA of $19.3 million. This was partially offset by decreased changes in non-cash operating working capital of $9.2 million and increased interest payments of $4.0 million related to the Fund's new debt.

Cash outflows from investing activities for the year ended December 31, 2008 increased by $251.8 million to $257.0 million compared to $5.2 million in 2007. This increase was primarily attributable to acquisition related payments of $254.2 million in 2008 compared to $3.8 million in 2007. Cash considerations paid in 2008 included $248.7 million related to the Shepell·fgi acquisition, $1.8 million related to the Heath second and third instalments, $2.3 million related to the Leong & Associates acquisition and $1.4 million related to second instalment and contingent payment for the Cowan DB business acquisition. In addition, capital expenditures increased by $1.4 million due to additional technology spending of $1.3 million to support the growth of the outsourcing and EAP businesses.

Cash from financing activities for the year ended December 31, 2008 increased by $243.3 million to $218.3 million compared to cash outflows of $25.0 million for the same period in 2007. This increase was primarily attributable to the proceeds from the public offering net of share issuance cost of $142.7 million and net proceeds from long term debt net of debt issue costs of $100.1 million. This was also due to the utilization of the revolving loan of $7.0 million to finance the various acquisitions. This was offset by increased distribution payments of $6.5 million due to the additional 12,750,000 units issued in June 2008 related our public offering for Shepell·fgi acquisition, 542,755 additional Class B units issued related to the Heath and Leong & Associate acquisitions and the 7% increase to our monthly distribution from $0.07356 per Unit to $0.07871 per Unit, following the closing of the Shepell•fgi acquisition.

2008 Fourth Quarter Results

Cash from operating activities for the three months ended December 31, 2008 increased by $10.1 million to $20.1 million compared to $10.0 million for the same period in 2007. This increase was primarily due to increased Standardized EBITDA of $9.9 million and increased changes in non-cash operating working capital of $0.9 million (see below). This was partially offset by increased interest payments of $1.6 million related to the Fund's new debt.

Cash outflows from investing activities for the three months ended December 31, 2008 increased by $5.1 million to $5.3 million compared to cash outflows of $0.2 million for the same period in 2007. This increase was primarily attributable to cash consideration paid, net of cash assumed for the Leong & Associates acquisition of $2.3 million, payment of the third instalment of $0.9 million for the Heath acquisition and the payment of contingent consideration of $0.4 million for the Cowan DB Business acquisition as well as increased capital expenditures of $1.4 million.

Cash outflow financing activities for the three months ended December 31, 2008 increased by $5.7 million to $12.4 million compared to cash outflows of $6.7 million for the same period in 2007. This increase was primarily attributable to the repayment of the revolving loan of $3.0 million. In addition, distribution payments increased by $2.9 million due to the additional 12,750,000 units issued in June 2008 related our public offering for Shepell·fgi acquisition, 299,760 additional Class B units issued related to the Heath and Leong & Associates acquisitions and the 7% increase to our monthly distribution from $0.07356 per Unit to $0.07871 per Unit, following the closing of the Shepell•fgi acquisition.

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 revolving loan and two promissory notes 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	$ 137,000	$ -	$ 137,000	$ -
Revolving loan	7,000	7,000	-	-
Promissory notes	79,500	79,500	-	-
Operating leases	84,109	20,357	16,270	47,482
Total	$ 307,609	$ 106,857	$ 153,270	$ 47,482

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 the leases is $0.2 million, expiring on October 30, 2011 and June 29, 2017, respectively.

Contingent Considerations

The purchase price for the Cowan DB business is expected to be approximately $6.0 million and payable in three instalments. The first instalment of $3.8 million was made on the closing date of June 1, 2007. The second instalment of $1.0 million and the transition service obligation of $0.4 million were paid on August 1, 2008 and December 31, 2008 respectively. The third instalment is subject to adjustment based on final pension administration and actuarial consulting services revenue and will be payable on August 1, 2009.

The purchase price for Leong and Associates is contingent on business results and is expected to be approximately $7.6 million payable in three instalments. The first instalment of $2.6 million was satisfied on closing through cash and equity consideration. The second and third instalments, 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 December 31, 2008**	**As at December 31, 2007**
Cash (bank indebtedness)	$ (504)	$ 2,898
Revolving loan	$ 7,000	$ -
Long-term debt, net of unamortized debt issue cost	$ 135,418	$ 34,913
Promissory notes ($31,632 under current liabilities)	$ 43,917	$ -
Unitholders' equity	$ 318,130	$ 197,668

We have historically utilized cash from operations to finance our smaller acquisitions and to fund growth in our working capital requirements. As at December 31, 2008, the Fund's working capital (current assets minus current liabilities), excluding the current portion of a promissory note of $31.6 million and future considerations related to acquisition of $0.7 million, was approximately $22.7 million. This is an increase of $3.0 million compared to $19.7 million as at December 31, 2007.

New credit agreement

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").
- $40 million senior secured non-revolving delayed draw term facility. This facility shall be available until July 2, 2009 by way of a single draw to fund a portion of the $75 million promissory note issued in connection with the acquisition.

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

Standardized 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, deprecation and amortization of the Fund, Shepell•fgi and Leong & Associates.

The Fund complied with all the required financial covenants and the ratios as at December 31, 2008 were 3.07:1 and 6.6:1 respectively.

Promissory notes

The promissory notes issued as part of the Shepell•fgi acquisition in the amounts of $75 million and $4.5 million are due on July 2, 2009 and July 2, 2010, respectively. The notes are non-interest bearing and are secured by a general assignment of all the assets of the Fund, which is subordinated to the credit facilities. The notes have been recorded at their initial combined present value of $71.4 million plus accreted interest to date of $4.2 million.

The Fund has the option to repay up to 50% of the $75 million promissory note and 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%. In addition, the Fund has available $40 million in a secured non-revolving delayed draw term facility.

The promissory notes also include 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 December 31, 2008**	**As at December 31, 2007**
Current assets	$ 75,757	$ 35,224
Other long-term assets	$ 614,108	$ 299,204
Current liabilities	$ 85,331	$ 16,319

Current Assets

Current assets as at December 31, 2008 increased by $40.6 million to $75.8 million from $35.2 million as at December 31, 2007. The increase was primarily due to the acquisitions of Shepell•fgi and Leong & Associates which at year end represented $35.7 million of the total current asset. The remaining increase is due to increases in accounts receivable and unbilled fees of $6.5 million as a result of growth in the outsourcing business and delayed payment from one large outsourcing client. In addition, prepaid

expenses increased by $1.7 million due to the funding of long term incentive plan amounts primarily related to the Shepell•fgi and Leong & Associates acquisitions. This was partially offset by decreased cash of $2.9 million.

Other Long-Term Assets

Other long-term assets as at December 31, 2008 increased by $314.9 million to $614.1 million from $299.2 million as at December 31, 2007. The increase was primarily due to the addition of capital assets net of amortization of $7.0 million, the addition of intangible assets net of amortization of $188.3 million, the addition of goodwill of $126.0 million and an increase in future income tax assets of $4.1 million primarily related to the Shepell•fgi and Leong & Associates acquisitions. In addition, goodwill also increased by $4.6 million during the period due to the recognition of the second and third instalments with respect to the Heath acquisition. This was partially offset by a decrease in interest-rate swap of $0.8 million.

Current Liabilities

Current liabilities as at December 31, 2008 increased by $69.0 million to $85.3 million from $16.3 million as at December 31, 2007. The increase was primarily related to increased accounts payable and accrued liabilities of $27.2 million, increased deferred revenue of $1.4 million, increased bank borrowing of $7.5 million and increased Unitholder distributions payable of $1.2 million, largely due to the Shepell•fgi and Leong & Associates acquisitions. In addition, included in current liabilities is $31.6 million of the promissory note issued for the Shepell•fgi acquisition which is due for payment on July 2, 2009.

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. 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 commissions 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, 2008 the Fund adopted the following new accounting standards:

1. Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which replace the existing Section 3861, *Financial Instruments - Disclosure and Presentation*. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections place an increased emphasis on disclosures and presentation regarding the risks associated with both recognized and unrecognized financial instruments and how the Fund manages those risks.

2. Section 1535, *Capital Disclosure*. This section requires disclosure of the Fund's objectives, policies and processes for managing capital, quantitative data about what the Fund regards as capital and whether the Fund has complied with any capital requirements.

These new standards relate to disclosures and presentation only and did not have an impact on the Fund's financial results or position.

Future Accounting Changes

1. Section 3064, *Goodwill and intangible assets* - In February 2008, the CICA issued the new Handbook replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new standard will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This 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. This Standard is not expected to impact the Fund's consolidated financial statements.

2. International Financial Reporting Standards - 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 has not yet been determined.

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 the year ended December 31, 2008, Morneau Sobeco's largest client accounted for approximately 7% of revenue (for the year ended December 31, 2007 – 11%) and its top 10 clients, in the aggregate, accounted for approximately 24% of total revenue for the year ended December 31, 2008 (for the year ended December 31, 2007 – 31%). 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.

The pension and benefits consulting and outsourcing service involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from:

(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 the fourth quarter of 2008, the Fund entered into a series of foreign exchange contracts to reduce its exposure to currency fluctuations over the next two years. As at December 31, 2008 the aggregate amount of foreign exchange contracts outstanding was $16.7 million. 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 loss as at December 31, 2008 was $0.8 million. The net revenue exposure after accounting for related expenses denominated in U.S. dollars less amounts under foreign exchange contracts was approximately US$9.2 million for the year ended December 31, 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 (" the SIFT Rules") 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 commencing 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 relating to 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 SIFT Rules.

On December 20, 2007, the Department of Finance (Canada) announced proposed 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 proposed 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 proposed amendments do not appear to exempt a partnership with individual partners. Draft legislation implementing these amendments is included in Bill C-10 which received first reading on February 4, 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 SFIT 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.

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. (formerly Morneau Sobeco Corporation) 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 $37.5 million owing under the promissory note due July 2, 2009 and up to $4.5 million owing under the promissory note due July 2, 2010, each 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 13.9% 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	**December 31 2008**	**September 30 2008**	**June 30 2008**	**March 31 2008**	**December 31 2007**	**September 30 2007**	**June 30 2007**	**March 31 2007**
Revenue	$82,298	$75,918	$52,363	$39,134	$36,707	$37,231	$37,057	$36,091
Net income	3,001	557	2,456	2,780	4,489	2,907	1,680	3,045
Standardized EBITDA	17,301	13,933	10,486	8,389	7,391	7,481	8,106	7,865
Standardized EBITDA margin	21.0%	18.4%	20.0%	21.4%	20.1%	20.1%	21.9%	21.8%
Standardized Distributable Cash (1)	16,079	3,345	10,035	(258)	7,812	8,097	5,835	(927)
Adjusted Consolidated Distributable Cash	14,391	11,133	9,730	7,700	7,025	6,515	7,223	7,439
Distributions declared	9,661	9,629	7,296	6,132	6,131	6,131	6,131	5,865
Net income per Unit (basic)	0.085	0.016	0.093	0.125	0.203	0.132	0.076	0.138
Net income per Unit (diluted)	0.085	0.016	0.091	0.125	0.203	0.132	0.076	0.138
Standardized EBITDA per Unit (basic)	0.423	0.342	0.329	0.302	0.266	0.269	0.292	0.283
Standardized Distributable Cash per Unit (basic) (1)	0.455	0.095	0.310	(0.012)	0.352	0.366	0.264	(0.042)
Adjusted Consolidated Distributable Cash per Unit (basic)	0.365	0.273	0.305	0.277	0.253	0.234	0.260	0.268
Distributions declared per Unit (basic)	0.236	0.236	0.226	0.221	0.221	0.221	0.221	0.211
Standardized Distributable Cash Payout Ratio (basic) (2)	51.9%	248.6%	73.9%	NM	62.6%	60.2%	83.4%	NM
Adjusted Consolidated Distributable Cash Payout Ratio	64.7%	86.5%	75.0%	79.6%	87.3%	94.1%	84.9%	78.8%
Twelve-month rolling Standardized Distributable Cash Payout Ratio (3)	101.0%	126.2%	87.0%	90.8%	92.7%	95.0%	90.6%	83.5%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	75.2%	81.8%	82.9%	86.2%	86.0%	85.9%	84.3%	83.3%
Total assets	689,865	683,273	688,804	328,665	334,428	337,391	342,569	338,530
Total long-term debt	135,418	135,280	135,162	34,926	$34,913	34,901	34,888	34,876

(1) The Standardized Distributable Cash for the three months ended March 31, 2008 and 2007 are significantly lower than the distributions declared, as the Fund pays its employees their annual bonuses in the first quarter of each year. 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 acquisitions.

(2) This ratio is not presented for the quarters ended March 31, 2008 and March 31, 2007 since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure.

(3) The twelve-month rolling Standardized Distributable Cash payout ratio ended December 31, 2008 was 101.0%. Our receivables at year end 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 and operating effectively to provide this assurance based on the evaluation of these controls and procedures conducted as at December 31, 2008.

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.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed and operating effectively to provide this assurance based on the evaluation of these controls conducted as at December 31, 2008.

No changes were made in the Fund's internal controls over financial reporting during the fourth quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting, with the exception of internal controls related to the Shepell•fgi business.

The Fund acquired the Shepell•fgi business on June 2, 2008. The Fund is continuing the documentation and integration of internal controls over financial reporting for that business and will carry out an evaluation of theses controls during 2009.

The following is a summary of the financial information of Shepell•fgi:

- Revenue for the three months ended December 31, 2008 of $38.1 million and the period from the date of acquisition to December 31, 2008 of $86.2 million.
- Current and non-current assets as at December 31, 2008 of $44.4 million and $8.4 million respectively.
- Current and non-current liabilities as at December 31, 2008 of $23.1 million and $6.8 million.

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 March 3, 2009.