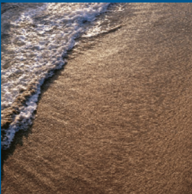
Morneau Sobeco Income Fund

2008 Third Quarter Results



MORNEAU SOBECO

Fresh thinking.
Innovative solutions.

November 13, 2008

To Our Unitholders

Morneau Sobeco Income Fund (the "Fund") is pleased to present its financial results for the period ended September 30, 2008. These results reflect positive performance of the Fund's operating business for the quarter, and includes for the first time one full quarter of the Shepell•fgi business, which was acquired on June 2, 2008.

The Fund's revenue growth for the third quarter of 2008 was $38.7 million, or 103.9%, to $75.9 million compared to $37.2 million for the same period in 2007. The increase in revenue was primarily due to revenue of $37.1 million related to the Fund's acquisition of Shepell•fgi. New clients were also a source of increased revenue in the quarter in the amount of $1.6 million.

Net income for the three months ended September 30, 2008 was $0.6 million compared to net income of $2.9 million for the same period in 2007.

The organization generated strong growth in all of its key management metrics. EBITDA (earnings before interest, taxes, depreciation and amortization) increased during the quarter by $6.5 million, or 86.2%, to $13.9 million compared to $7.5 million for the same period in 2007. Adjusted Consolidated Distributable Cash for the three months ended September 30, 2008 increased by $4.6 million to $11.1 million compared to $6.5 million for the same period in 2007. EBITDA per Unit (basic) for the three months ended September 30, 2008 was $0.342 which represents an increase of 26.9% over the same period in 2007. This is consistent with the growth in the Adjusted Consolidated Distributable Cash per Unit (basic) which grew 16.4% over the same period and reflects the structure and accretion of the Shepell•fgi acquisition by the Fund. The Adjusted Consolidated Distributable Cash Payout Ratio decreased in the third quarter of 2008, from 94.1% to 86.5%.

Standardized Distributable Cash per Unit (basic) decreased by 74.0% over the same period in 2007. Standardized Distributable Cash decreased by $4.8 million to $3.3 million compared to $8.1 million for the same period in 2007.

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.

The acquisition of Leong & Associates helps the Fund expand its actuarial and pension consulting business in the West, making it a regional leader. This transaction is immediately accretive and reflects the Fund's continued strategy of acquiring complementary businesses.

The Fund believes that its results reflect its continuing stability in challenging North American economic conditions. Some services may be positively impacted by the economic situation, including employee assistance services and pension and benefits outsourcing. The Fund continues to have a positive outlook for 2008 in terms of its financial performance, business, and acquisition strategies.

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

WILLIAM MORNEAU
Chairman & Chief Executive Officer

HIGHLIGHTS

QUARTERLY REVENUE INCREASED BY 103.9%
OVER SAME PERIOD IN 2007

ADJUSTED CONSOLIDATED DISTRIBUTABLE CASH
PER UNIT (BASIC) INCREASED BY 16.4%:

FUND COMPLETES ACQUISITION OF
LEONG & ASSOCIATES

MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

	As at September 30, 2008	As at December 31, 2007
Assets		
Current assets:		
Cash	$ —	$ 2,898
Accounts receivable	47,773	27,855
Unbilled fees	13,468	2,067
Income taxes recoverable	1,865	388
Prepaid expenses and other	6,516	2,016
	69,622	35,224
Future income taxes (note 14)	7,149	3,258
Interest-rate swaps (note 7)	—	785
Capital assets (note 4)	16,906	10,186
Intangible assets (note 5)	293,944	115,524
Goodwill (note 6)	295,652	169,451
	$683,273	$334,428
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 2,851	$ —
Accounts payable and accrued liabilities	31,835	12,507
Deferred revenue	2,674	807
Current portion of long-term debt (note 7)	10,000	—
Current portion of promissory note (note 8)	29,919	—
Future consideration related to acquisition (note 3)	1,084	960
Unitholder distributions payable (including non-controlling)	3,210	2,045
	81,573	16,319
Insurance premium liabilities:		
Payable to insurance companies	15,040	9,946
Less related cash and investments held	(15,040)	(9,946)
	—	—
Long-term debt (note 7)	135,280	34,913
Promissory notes (note 8)	43,819	—
Interest-rate swaps (note 7)	1,581	—
Future consideration related to acquisition (note 3)	—	1,084
Other liabilities (note 9)	6,919	182
Future income taxes (note 14)	29,300	29,810
	298,472	82,308
Non-controlling interests (note 11)	52,836	54,452
Unitholders' equity	331,965	197,668
	$683,273	$334,428

Commitments, Contingencies and Subsequent event (notes 3,7,18, 19 and 26)

Robert Chisholm
Trustee,
Audit Committee Chair

William Morneau
Trustee,
Chairman and CEO

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(Unaudited)

(In thousands of dollars, except per unit amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenue				
Fees	$69,769	$30,081	$151,365	$ 93,548
Commissions	6,055	7,009	15,661	16,411
Other	94	141	390	420
	75,918	37,231	167,416	110,379
Expenses				
Salary, benefit and contractor expenses	48,815	22,713	105,580	65,960
Other operating	13,170	7,037	29,028	20,968
Amortization of capital assets (note 4)	922	563	2,596	1,633
Amortization of intangible assets (note 5)	10,505	3,872	20,080	11,453
Interest expenses (note 7)	4,016	337	7,022	1,105
	77,428	34,522	164,306	101,119
Income (loss) before income taxes and non-controlling interest	(1,510)	2,709	3,110	9,260
Income taxes (recovery) (note 14)				
Current	(52)	(1)	(101)	306
Future	(2,103)	(944)	(3,851)	(650)
	(2,155)	(945)	(3,952)	(344)
Income before non-controlling interest	645	3,654	7,062	9,604
Non-controlling interest (note 11)	(88)	(747)	(1,270)	(1,973)
Net income	557	2,907	5,792	7,631
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate cash flow hedges	(2,532)	—	(1,581)	—
Comprehensive income (loss) for the period	$ (1,975)	$ 2,907	$ 4,211	$ 7,631
Net income per Unit (basic and diluted) (note 16)	$ 0.016	$ 0.132	$ 0.207	$ 0.346

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

For the nine months ended September 30, 2008
(Unaudited)
(In thousands of dollars)

	Unitholders' Capital	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2006	$210,607	$ —	$ (6,988)	$203,619
Exchange of Class B LP Units	1,226	—	—	1,226
Net income for the period	—	—	12,120	12,120
Distributions	—	—	(19,297)	(19,297)
Balance, December 31, 2007	$211,833	$ —	$(14,165)	$197,668
Exchange of Class B LP Units (note 11)	3,688	—	—	3,688
Issuance of Units (note 10)	153,000	—	—	153,000
Issuance costs, net of future income tax benefits (note 10)	(7,316)	—	—	(7,316)
Net income for the period	—	—	5,792	5,792
Comprehensive income (loss) for the period	—	(1,581)	—	(1,581)
Distributions (note 12)	—	—	(19,286)	(19,286)
Balance, September 30, 2008	$361,205	$(1,581)	$(27,659)	$331,965

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands of dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities				
Net income	$ 557	$ 2,907	$ 5,792	$ 7,631
Items not involving cash:				
Amortization of capital assets	922	563	2,596	1,633
Amortization of intangible assets	10,505	3,872	20,080	11,453
Amortization of debt issue costs (note 7)	117	12	238	38
Straight lining of contractual rent	205	—	280	—
Amortization of leasehold inducement	(113)	—	(151)	—
Sub-lease loss	(240)	—	(240)	—
Non-controlling interest of Class B LP Units	88	747	1,270	1,973
Future income taxes	(2,103)	(944)	(3,851)	(650)
Salary component of Heath acquisition (note 3(c))	272	240	1,030	760
Accretion on promissory notes (note 7)	1,811	—	2,381	—
Fair value of interest-rate swap agreements (note 7)	—	(86)	785	(155)
	12,021	7,311	30,210	22,683
Change in non-cash operating working capital (note 17)	(7,258)	3,665	(14,975)	(4,817)
	4,763	10,976	15,235	17,866
Financing activities				
Issuance of units (note 10)	—	—	153,000	—
Expenses related to issuance of units (note 10)	—	—	(10,467)	—
Proceeds from long-term debt (note 7)	—	—	137,000	—
Repayment of term loan (note 7)	—	—	(35,000)	—
Deferred financing cost (note 7)	—	—	(1,875)	—
Operating line of credit (note 7)	7,700	(3,800)	10,000	—
Distributions paid	(9,630)	(6,131)	(21,892)	(18,274)
	(1,930)	(9,931)	230,766	(18,274)
Investing activities				
Business acquisition – Shepell•fgi (note 3(a))	(2,136)	—	(248,602)	—
Business acquisition – Cowan (note 3(b))	(959)	—	(959)	(3,783)
Business acquisition – Heath (note 3(c))	—	—	(813)	—
Cash assumed from acquisitions (note 3(a) & (c))	—	—	272	256
Purchase of capital assets	(888)	(796)	(1,648)	(1,507)
	(3,983)	(796)	(251,750)	(5,034)
Net increase (decrease) in cash for the period	(1,150)	249	(5,749)	(5,442)
Cash (bank indebtedness), beginning of period	(1,701)	(434)	2,898	5,257
Cash (bank indebtedness), end of period	$ (2,851)	$ (185)	$ (2,851)	$ (185)

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND NATURE OF THE BUSINESS

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

The 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 2,300 employees in offices across North America, the Fund offers its services to organizations that are situated in Canada, in the United States and around the globe.

On June 2, 2008, the Fund indirectly acquired substantially all the assets of Shepell FGI LP ("Shepell•fgi") (Note 3(a) – Business Acquisition). The primary services provided by Shepell•fgi are employee assistance programs ("EAP"), employee health management and workplace training and education.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles and the significant accounting policies are summarized below:

(a) Basis of presentation

These consolidated financial statements include the assets, liabilities, revenue and expenses of the following entities:

	% Ownership
Morneau Sobeco Trust ("Trust")	100.0
Morneau Sobeco GP Inc. ("MS GP")	100.0
Morneau Sobeco Limited Partnership ("MSLP")	86.6
Morneau Sobeco Group Limited Partnership ("MS Group LP")	86.6
Morneau Sobeco, Ltd. ("MSUS")	86.6
HRCO Inc ("HRCO") (formerly Morneau Sobeco Corporation)	86.6

	% Ownership
FGI World France S.A.R.L.	86.6
FGI World New Caledonia	86.6
1137273 Ontario Limited	86.6
2183573 Ontario Inc	86.6
Innu-Med Inc.	41.6

All material intercompany transactions and balances have been eliminated upon consolidation.

(b) Measurement uncertainties

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Revenue recognition and unbilled fees

Fees for administrative, actuarial and consulting services are recognized when the services are rendered.

EAP revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a 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 normal billing rates and the amount which is estimated to be recoverable upon invoicing.

Commissions are recognized when earned, which is at the later of the billing or the effective date of the policy, net of a provision for return commissions due to policy cancellations or change of brokers.

Other revenue includes investment income recorded on the accrual basis.

(d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet dates. Non-monetary items have been translated into Canadian dollars at the exchange rates prevailing when the assets were acquired or obligations incurred. Revenue and expenses have been translated at rates in effect on the transaction dates. Exchange gains or losses are reflected in income for the period.

(e) Capital assets

Capital assets are stated at their initial capital cost less accumulated amortization. Amortization is recognized over the assets' estimated useful lives as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Computer software	Declining balance	50%
Furniture and equipment	Declining balance	20%
Leasehold improvements	Straight-line	Over term of the lease

(f) Intangible assets

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

Amortization is calculated using the straight-line method based on following estimated useful lives:

Asset	Estimated useful lives
Customer relationships	15 to 20 years
Customer contracts	1 to 2 years
Proprietary software	5 years
Non-compete agreements	16 months
Trade names	Indefinite

(g) Impairment of long-lived assets

Long-lived assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances cause their carrying amount to exceed the total undiscounted cash flow expected from their use and eventual disposition. An impairment loss is measured at the amount by which the carrying amount of the long-lived asset exceeds its fair value.

(h) Goodwill

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.

(i) Insurance premium liabilities and related cash and investments

In its capacity as consultants, the Fund collects premiums from insureds and remits premiums, net of agreed deductions, such as taxes, administrative fees and commissions, to insurance underwriters. These are considered flow-through items for the Fund and, as such, the cash and investment balances relating to these liabilities are deducted from the related liability in the consolidated balance sheets.

(j) Long-term incentive plan

The Fund has a long-term incentive plan under which participants are eligible to receive Units. The amount awarded

under this plan is recorded as salary, benefit and contractor expenses over the three-year vesting period.

(k) Employee future benefits

The Fund offers a pension benefit plan for its employees, which includes a defined benefit option and a defined contribution option.

The defined benefit option was closed effective January 1, 1998 and included 7 employees, 6 retirees and 52 deferred vested members as at September 30, 2008. All other employees are covered by the defined contribution option of the plan.

The Fund accrues its obligations under the defined benefit option of the plan as the employees render the services necessary to earn the pension. For the defined contribution option, the Fund matches member contributions and may be required to make additional contributions at the option of the member, up to the limits defined in the plan text.

(l) 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.

(m) Deferred lease inducements

Lease inducements comprise rent-free periods and leasehold improvement allowances. Lease inducements are deferred and amortized to rental expense on a straight-line basis over the term of the related lease.

(n) 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.

Derivative financial instruments are used by the Fund in the management of its interest rate risk exposure on debt financing. Derivatives that have been designated and function effectively as a hedge are accounted for using hedge accounting principles. The effective portions 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 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.

The Fund does not use derivative financial instruments for trading or speculative purposes.

(o) New accounting policies

Effective January 1, 2008 the Fund adopted the following new accounting standards:

(i) 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.

(ii) 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. Disclosures required as a result of adopting the above sections can be found in notes 22 and 23.

(p) Future accounting changes

(i) Goodwill and intangible assets – In February 2008, the CICA issued new Handbook Section 3064, *Goodwill and Intangible Assets*, 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. The Fund is currently assessing the impact this new standard will have on its consolidated financial statements, if any.

(ii) International Financial Reporting Standards – The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for

interim and annual periods commencing January 1, 2011. The Fund is currently assessing the new standards and has not yet determined the impact on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

(a) Shepell•FGI Holdings LP ("Shepell•fgi")

On June 2, 2008, the Fund indirectly acquired certain assets, shares of certain subsidiaries, liabilities and contracts of Shepell•fgi. The total purchase price is $319,960 including estimated transaction cost of $1,243. The consideration was satisfied by cash of $247,359 and two non-interest bearing promissory notes of $75,000 and $4,500 repayable on July 2, 2009 and July 2, 2010 respectively. The promissory notes have been recorded at their combined present value of $71,358.

The acquisition was financed by the issuance of the Fund's Units for proceeds of $153,000, net of underwriters' fees and estimated issuance expenses of approximately $10,467. The remaining amount was financed through cash from operations and the utilization of a new credit facility. $246,466 of the cash consideration was paid on closing and the remainder of $2,136 was settled in July 2008 after the finalization of the working capital.

The acquisition has been accounted for using the purchase method. The purchase price allocation is preliminary pending finalization of valuations of the net identifiable assets acquired and liabilities assumed. The preliminary estimated fair values of the assets acquired and liabilities assumed in the acquisition are as follows:

Assets and liabilities acquired:	
Cash	$ 272
Accounts receivable	14,672
Unbilled fees	8,041
Income taxes recoverable	572
Prepaid expenses and other	2,225
Capital assets	7,669
Intangible assets:	
Customer relationship	90,000
Customer contracts	27,500
Trade name	70,000
Non-compete agreements	5,000
Proprietary software	6,000
Goodwill	121,604
Accounts payable and accrued liabilities	(21,848)
Deferred revenue	(2,298)
Future income tax liabilities	(2,601)
Other liabilities	(6,848)
	$319,960
Consideration:	
Cash	$247,359
Transaction costs	1,243
Promissory notes issued to vendors, at present value	71,358
	$319,960

As a result of the transaction being an asset purchase, a subsidiary of the Fund has approximately $220,000 of eligible tax deductions which are deductible from taxable income at 7% per annum on a declining balance basis.

These consolidated financial statements include the results of Shepell•fgi from the date of acquisition on June 2, 2008.

(b) Cowan Benefits Consulting Limited ("Cowan")

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, a benefits consulting firm based in the Waterloo region, in Ontario. The purchase price is based on the final pension administration and actuarial consulting services revenue and certain other integration conditions and is expected to be approximately $6 million. The acquisition will be paid in three instalments.

The first instalment was made on the closing date of June 1, 2007 and was funded by $3,800 of the operating line of credit. In addition, the Fund issued a standby letter of credit in the amount of $400, which will be paid on or before December 31, 2008 to the extent the vendor has performed all of its transition services obligations. The second instalment of $960 was paid on August 1, 2008. The third instalment is subject to the purchase price adjustment and will be payable on August 1, 2009.

The contingent consideration has been recognized to the extent the acquired assets net of liabilities assumed exceed the first and second installments of the purchase price. The acquisition has been accounted for by the purchase method based on management's best estimate of the relative fair value of the identifiable assets and liabilities acquired.

Assets and liabilities acquired:

Cash	$ 256
Prepaid expenses and other	6
Intangible assets	5,821
Accounts payable and accrued liabilities	(256)
	$5,827

Consideration:

Cash	$3,783
Instalment 2 paid on August 1, 2008	960
Future considerations	1,084
	$5,827

These consolidated financial statements include the results of the Cowan DB business from the date of acquisition on June 1, 2007.

(c) Heath Benefits Consulting Inc. ("Heath")

On June 1, 2006, the Fund indirectly acquired all of the issued and outstanding shares of Heath, a Vancouver-based benefits consulting firm with over 90 employees across Canada.

The purchase price is $16,853. The consideration was satisfied primarily through cash, the assumption and repayment of the Heath debt and the issuance of Class B LP Units of MS Group LP based on a predetermined value of $12.52 per unit and a final installment of cash and units of MS Group LP due on December 1, 2008.

A portion of the purchase price is conditional on the continuing employment of certain selling shareholders ("salary component of the Heath acquisition") and is being recorded as salary expense over the required employment period to December 2008.

The expenses related to the salary component of the Heath acquisition for the three months ended September 30, 2008 and September 30, 2007 were $272 and $240 and for the nine months ended September 30, 2008 and September 30, 2007 were $1,030 and $760, respectively. The expense for the nine months included an adjustment as a result of the finalization of the contingent consideration.

Total consideration also includes amounts to compensate for forgone distributions payable on the unpaid purchase price since June 1, 2006, which amounted to $408 as at September 30, 2008.

The acquisition has been accounted for by the purchase method based on management's best estimate of the relative fair value of the identifiable assets and liabilities assumed. The purchase price has been accounted as follows:

Assets and liabilities acquired:	
Cash	$ 827
Accounts receivable	1,530
Income taxes recoverable	66
Prepaid expenses and other	101
Capital assets	365
Intangible assets	8,090
Goodwill	7,776
Bank indebtedness	(1,734)
Accounts payable and accrued liabilities	(969)
Future income tax liability	(1,923)
Payable to insurance companies	(3,156)
Related cash and investments held	3,156
	$14,129
Consideration:	
Cash	$ 1,261
Debt assumed and repaid	4,648
Exchangeable Units	6,960
Future considerations	3,984
	$16,853
Salary component of the Heath acquisition	(2,724)
	$14,129

These consolidated financial statements include the results of Heath from the date of acquisition on June 1, 2006.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization September 30, 2008	Net Book Value September 30, 2008	Net Book Value December 31, 2007
Computer equipment	$ 3,306	$(1,158)	$ 2,148	$ 1,201
Computer software	1,180	(459)	721	230
Furniture and equipment	6,738	(1,945)	4,793	2,381
Leasehold improvements	13,225	(3,981)	9,244	6,374
	$24,449	$(7,543)	$16,906	$10,186

Amortization for the three months ended September 30, 2008 and September 30, 2007 were $922 and $563 and for the nine

months ended September 30, 2008 and September 30, 2007 were $2,596 and $1,633, respectively.

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization September 30, 2008	Net Book Value September 30, 2008	Net Book Value December 31, 2007
Customer relationships	$193,911	$(17,317)	$176,594	$ 92,666
Customer contracts	32,500	(10,500)	22,000	858
Proprietary software	46,000	(24,400)	21,600	22,000
Non-compete agreements	5,000	(1,250)	3,750	—
Trade names	70,000	—	70,000	—
	$347,411	$(53,467)	$293,944	$115,524

Amortization for the three months ended September 30, 2008 and September 30, 2007 were $10,505 and $3,872 and for the nine months ended September 30, 2008 and September 30, 2007 were $20,080 and $11,453, respectively.

6. GOODWILL

	September 30, 2008	December 31, 2007
Balance, beginning of year	$169,451	$169,451
Acquisition (note 3(a))	121,604	—
Acquisition (note 3(c))	4,597	—
	$295,652	$169,451

$3,179 of goodwill related to the Heath acquisition was recognized as part of the first instalment paid on June 1, 2006.

7. BANK INDEBTEDNESS AND LONG-TERM DEBT

	September 30, 2008	December 31, 2007
Non-revolving term loan	$137,000	$35,000
Revolving loan	10,000	—
	147,000	35,000
Less: current portion of long term debt	(10,000)	—
Less: debt issue costs, net of accumulated amortization	(1,720)	(87)
	$135,280	$34,913

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:

- $20,000 senior secured revolving facility ("revolving loan").
- $137,000 senior secured non-revolving term loan ("term loan").
- $40,000 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 $75,000 promissory note issued in connection with the Shepell•fgi 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 and Shepell•fgi.

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

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

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

The Fund complied with all the required financial covenants and the ratios as at September 30, 2008 were 3.25 and 8.4 respectively.

At September 30, 2008 the Fund has utilized the following credit facilities:

- $137,000 of term loan. The term loan is repayable in full on June 1, 2012 and bears interest at one month banker acceptance ("BA") rate plus an applicable margin.
- $10,000 of revolving loan. The loan matures on October 22, 2008 but is eligible for rollover under the terms of the revolving loan. The loan bears interest at banker acceptance rate plus an applicable margin.
- Bank indebtedness of $2,851 under the revolving facilities. The overdraft carries interest at prime plus an applicable margin.
- $400 letter of credit under the revolving facility, as part of the Cowan DB business acquisition.

As a result of the new credit agreement, the Fund wrote off the remaining $74 of debt issue costs related to the previous credit agreement and incurred $1,875 of new costs.

Interest-rate swap

In connection with the term loan, the Fund entered into new interest-rate swap agreements for a total notional amount of $102,000, increasing to $137,000 from July 2, 2008 to and ending on June 1, 2012. These swaps are used to fix the variable component of the interest rate at 3.647%, before the applicable margin, for the duration of the loan and have been designated as cash flow hedges. The fair value of the swaps as at September 30, 2008 was $(1,581).

In second quarter the Fund also terminated its existing swap agreements associated with the original $35,000 borrowing and

incurred a loss of $282, which represents a mark to market adjustment of $196 on the cancellation date and the write off the remaining fair value of $86. These swap agreements were not designated as cash flow hedges and as such are included in interest expense.

Interest expense

Interest expense is comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest on term loan	$1,907	$374	$3,185	$1,134
Accretion of interest on promissory notes (note 8)	1,811	—	2,381	—
Interest on revolving loan, bank indebtedness and other charges	181	37	237	88
Amortization of debt issue costs	117	12	238	38
Swap termination fees	—	—	196	—
Interest-rate swap agreements fair value adjustment	—	(86)	785	(155)
	$4,016	$337	$7,022	$1,105

8. PROMISSORY NOTES

The promissory notes issued as part of the Shepell•fgi acquisition in the amounts of $75,000 and $4,500 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 $71,358 plus accreted interest to date of $2,381. Since the Fund has available $40,000 senior secured non-revolving delayed draw term facility to cover a portion of the $75,000 due on July 2, 2009 only $29,919 has been reflected under current liability.

The Fund has the option to repay up to 50% of the $75,000 promissory note and 100% of the $4,500 promissory note through the issuance of Units, the number determined by dividing the dollar amount by the then market trading price discounted by 5%, subject to the Fund's ability to issue new Units under the guidance for income trusts that qualify for the four-year transitional relief.

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.

9. OTHER LIABILITIES

	September 30, 2008	December 31, 2007
Acquired above market rent leases	$5,648	$ —
Sub-lease loss	809	—
Deferred lease obligations	462	182
	$6,919	$182

As part of the Shepell•fgi acquisition, the Fund assumed lease agreements for several offices. The above amounts include the difference between estimated market rates and the lease agreements as well as the estimated sub-lease loss as a result of an office relocation.

10. FUND UNITS

The Fund is authorized to issue an unlimited number of Units and an unlimited number of special voting units ("Special Voting Units"). Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund.

Units are redeemable at any time on demand by the Unitholders up to an aggregate maximum monthly amount of

$50. Trustees may, in their sole discretion, waive this limitation. The redemption price is calculated based on the lesser of:

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

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

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

	Units Issued	Special Voting Units	Total Units	Amount
Balance, December 31, 2006	22,062,916	5,721,444	27,784,360	$210,607
Exchange of Class B LP Units	130,003	(130,003)	—	1,226
Balance, December 31, 2007	22,192,919	5,591,441	27,784,360	211,833
Exchange of Class B LP Units	361,468	(361,468)	—	3,688
Class A LP Units – (i)	12,750,000	—	12,750,000	153,000
Issuance costs – (i)	—	—	—	(7,316)
Class B LP Units – (ii)	—	242,997	242,997	—
Balance, September 30, 2008	35,304,387	5,472,970	40,777,357	$361,205

(i) On June 2, 2008, as part of the Shepell•fgi acquisition, the Fund completed a public offering and issued 12,750,000 Units at price of $12.00 per unit for cash proceeds of $153,000. The issuance costs, net of future income tax benefits of $3,151, is $7,316.

(ii) On June 30, 2008, the Fund issued 242,997 Special Voting Units in connection with the settlement of the second instalment of the Heath acquisition.

11. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco and Heath own 5,472,970 Class B LP Units of MS Group LP. The Class B LP Units are fully exchangeable for an equal number of Units in the Fund and provide the former shareholders of Morneau Sobeco and Heath with a non-controlling interest of 13.4% (December 31, 2007 – 20.1%) in the Fund. Some of the Class B LP Units were subordinated in their rights to receive distributions.

Distributions on the Subordinated Class B LP Units were subordinated in favour of the Fund Units and the Non-subordinated Class B LP Units. The distributions on the Subordinated Class B LP Units were paid at the end of a fiscal quarter to the extent that an average monthly distribution of at least $0.06875 per Unit and Non-subordinated Class B LP Unit in respect of that quarter had been paid. On October 16, 2007, the Audit Committee of the Fund declared that the conditions of the subordination provisions had been satisfied and the subordination end date was determined to be September 30, 2007.

	Class B LP Units Issued			
	Subordinated	Non-subordinated	Total	Amount
Balance, December 31, 2006	4,095,060	1,626,384	5,721,444	$56,520
Exchange Units	—	(130,003)	(130,003)	(1,226)
Subordinated conditions met	(4,095,060)	4,095,060	—	—
Salary component of Heath acquisition				999
Share of income for the year				3,119
Distribution for the year				(4,960)
Balance, December 31, 2007	—	5,591,441	5,591,441	54,452
Units issued related to Heath acquisition		242,997	242,997	3,042
Salary component of Heath acquisition				758
Heath 3rd instalment excluding salary component				773
Exchange Units	—	(361,468)	(361,468)	(3,688)
Share of income for the period				1,270
Distributions for the period				(3,771)
Balance, September 30, 2008	—	5,472,970	5,472,970	$52,836

12. DISTRIBUTIONS TO UNITHOLDERS

The Board of Trustees determines the amount of distributions. The Fund's Declaration of Trust provides that distributions must be made to ensure that the Fund will not be liable for ordinary income taxes under the *Income Tax Act (Canada)*. Any

taxable income of the Fund that is unavailable for cash distribution will be distributed to Unitholders in the form of additional Units, which Units will be immediately consolidated such that each Unitholder will hold after consolidation the same number of Units as the Unitholder held prior to the distribution, subject to certain exceptions.

Distributions announced during the nine months ended September 30, 2008 and 2007 were as follows:

Unitholder record date	Total	Per Unit	Paid or payable for the nine months ended September 30, 2008
Trust Units			
January 31, 2008	$ 1,635	$0.07356	February 15, 2008
February 28, 2008	1,642	0.07356	March 17, 2008
March 31, 2008	1,642	0.07356	April 15, 2008
April 30, 2008	1,643	0.07356	May 15, 2008
May 30, 2008	1,643	0.07356	June 16, 2008
June 30, 2008	2,763	0.07871	July 15, 2008
July 31, 2008	2,768	0.07871	August 15, 2008
August 29, 2008	2,771	0.07871	September 16, 2008
September 30, 2008	2,779	0.07871	October 15, 2008
	$19,286	$0.68264	
Class B LP Units			
Non-subordinated			
January 31, 2008	$ 409	$0.07356	February 15, 2008
February 28, 2008	403	0.07356	March 17, 2008
March 31, 2008	401	0.07356	April 15, 2008
April 30, 2008	400	0.07356	May 15, 2008
May 30, 2008	400	0.07356	June 16, 2008
June 30, 2008	447	0.07871	July 15, 2008
July 31, 2008	441	0.07871	August 15, 2008
August 29, 2008	439	0.07871	September 16, 2008
September 30, 2008	431	0.07871	October 15, 2008
	$ 3,771	$0.68264	

Unitholder record date	Total	Per Unit	Paid or payable for the nine months ended September 30, 2007
Trust Units			
January 31, 2007	$ 1,517	$0.06875	February 15, 2007
February 28, 2007	1,517	0.06875	March 15, 2007
March 30, 2007	1,623	0.07356	April 16, 2007
April 30, 2007	1,623	0.07356	May 15, 2007
May 31, 2007	1,623	0.07356	June 15, 2007
June 29, 2007	1,623	0.07356	July 16, 2007
July 31, 2007	1,623	0.07356	August 15, 2007
August 31, 2007	1,627	0.07356	September 17, 2007
September 28, 2007	1,627	0.07356	October 15, 2007
	$14,403	$0.65242	

Unitholder record date	Total	Per Unit	Paid or payable for the nine months ended September 30, 2007
Class B LP Units			
Non-subordinated			
January 31, 2007	$ 112	$0.06875	February 15, 2007
February 28, 2007	112	0.06875	March 15, 2007
March 30, 2007	120	0.07356	April 16, 2007
April 30, 2007	120	0.07356	May 15, 2007
May 31, 2007	120	0.07356	June 15, 2007
June 29, 2007	120	0.07356	July 16, 2007
July 31, 2007	120	0.07356	August 15, 2007
August 31, 2007	116	0.07356	September 17, 2007
September 28, 2007	116	0.07356	October 15, 2007
	$1,056	$0.65242	
Subordinated			
March 30, 2007	$ 864	$0.21106	April 16, 2007
June 29, 2007	903	0.22068	July 16, 2007
September 28, 2007	903	0.22068	October 15, 2007
	$2,670	$0.65242	

13. LONG-TERM INCENTIVE PLAN

Senior management is eligible to participate in Morneau Sobeco's Long-Term Incentive Plan ("LTIP"), which is designed to align compensation with the performance of the Fund's subsidiaries and to aid in the retention of a select group of senior professionals. The Fund's Compensation, Nominating and Corporate Governance Committee of the Board of Trustees determines (i) who will participate in the LTIP; (ii) the level of participation; and (iii) the time or times when LTIP awards will vest or be paid to each participant.

Pursuant to the LTIP, Morneau Sobeco sets aside a pool of funds in an amount determined by the Board. Morneau Sobeco or a trustee purchases Units in the market with this pool of funds and holds the Units until such time as ownership vests to each participant. Generally, Units will either vest upon departure from the firm after a period of at least three years, or in equal amounts over a period of three years following the grant of the awards. LTIP participants are entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the trustee for

an LTIP participant will be forfeited if the participant resigns or is terminated prior to the applicable vesting date and those Units will be sold and the proceeds returned to Morneau Sobeco, or as otherwise directed.

Amounts awarded under the terms of the LTIP since inception of the plan and their associated expenses by year based on vesting periods are summarized as follow:

Year awarded	Year units purchased	Award amount	Expense by year – December 31 2007	2008	2009	2010	2011
2006	2007	$ 386	$146	$ 198	$ 42	$ —	$ —
2007	2008	1,340	—	484	439	417	—
2008	2008	1,765	—	893	497	240	135
		$3,491	$146	$1,575	$978	$657	$135

Once awarded, the LTIP amount to be recognized as an expense in future periods is classified as a prepaid expense on the consolidated balance sheet. As at September 30, 2008 the amount recorded under prepaid is $2,209. The expense recognized for the three months ended September 30, 2008 and September 30, 2007 was $791 and $32 and for the nine months ended September 30, 2008 and September 30, 2007 was $1,132 and $96 respectively. Under the LTIP, the Fund redeemed proceeds of $17 related to 2006 awards forfeited.

14. INCOME TAXES

The Fund currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by the Fund and distributed annually to Unitholders was not, and would not be, subject to taxation in the Fund. For financial statement reporting purposes, the tax deductibility of the Fund's distributions was treated as an exemption from taxation as the Fund distributed and was committed to continue distributing all of its income to its Unitholders. Accordingly, the Fund did not previously record a provision for income taxes, or future income tax assets or liabilities, in respect of the Fund and its flow-through

entities. The Fund, however, recorded current and future income tax liability relating to the corporate subsidiaries.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT"), received Royal Assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and a real estate investment trust. The Fund is a SIFT, as discussed below.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

A SIFT which was publicly listed on or before October 31, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006.

As a result of the SIFT Rules, the Fund commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, and those of its flow-through entities that are expected to reverse in or after 2011. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse.

The difference between income taxes calculated using the Fund's effective income tax rates and the amounts that would result from the application of the statutory income tax rates arises from the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Income taxes at statutory rates:				
Federal	19.50%	22.12%	19.50%	22.12%
Provincial	13.00%	12.12%	13.00%	12.12%
	32.50%	34.24%	32.50%	34.24%
Income tax provision applied to income before income taxes:				
Combined basic federal and provincial income taxes at statutory rates applied to income from continuing operations	$ (491)	$ 928	$ 1,011	$ 3,171
Income taxed in the hands of the Unitholders	(2,794)	(1,921)	(6,366)	(5,686)
Non-deductible expenses	166	113	467	357
Adjustment as a result of new SIFT rules	—	—	—	2,670
Adjustment to future income assets and liabilities for change in income tax rate	94	(72)	94	(356)
Non-deductible portion of intangible amortization	764	2	764	2
Change in taxable subsidiary share of temporary differences between the carrying amounts and tax bases of its assets and liabilities	—	—	—	(300)
Other	106	5	78	(202)
	$(2,155)	$ (945)	$(3,952)	$ (344)

The significant components of future income tax assets and liabilities related to continuing operations are as follows:

	September 30, 2008	December 31, 2007
Future income tax assets:		
Fund Unit issuance costs	$ 4,679	$ 2,581
Capital assets	825	652
Loss carryforward	1,645	—
Other	—	25
	$ 7,149	$ 3,258
Future income tax liabilities:		
Intangible assets	$27,447	$29,810
Other liabilities	1,853	—
	$29,300	$29,810

15. EMPLOYEE FUTURE BENEFITS

The Fund offers a pension benefit plan for its employees, which includes a defined benefit option and a defined contribution option. The defined benefit option was closed to new members effective January 1, 1998.

Under the defined contribution option, each member is required to contribute a specific dollar amount based on the member's job level classification. Each member may elect to make an optional contribution of between 50% and 300% of the member's required contribution. The Fund matches required contributions. For employees with less than 10 years of service, the Fund contributes 50% of optional contributions and for members with 10 or more years, 75% of optional contributions.

The pension fund assets and obligations are measured as at September 30, 2008. Information about the pension plan's defined benefit option is as follows:

	September 30, 2008	December 31, 2007
Fair value of plan assets	$2,567	$2,897
Accrued benefit obligation	2,773	3,218
Funded status – deficit	$ (206)	$ (321)
Plan assets:		
Fair value, beginning of year	$2,897	$2,562
Actual return on plan assets	(326)	108
Employer contributions	214	285
Benefits paid	(218)	(58)
Fair value, end of period/year	$2,567	$2,897
Accrued benefit obligation:		
Balance, beginning of year	$3,218	$3,164
Current service cost	41	91
Interest cost	130	161
Benefits paid	(218)	(58)
Actuarial gains	(398)	(140)
Balance, end of period/year	$2,773	$3,218

	September 30, 2008	December 31, 2007
Reconciliation of plan assets to accrued benefit obligation, end of period/year:		
Fair value of plan assets	$2,567	$2,897
Accrued benefit obligation	2,773	3,218
Funded status – deficit	(206)	(321)
Unamortized net actuarial loss (gain)	(83)	(36)
Unamortized transitional obligation	291	359
Accrued benefit asset	$ 2	$ 2
End of year allocation of fair value of plan assets (%):		
Pooled Equities Fund	45%	45%
Pooled Bond Fund	55%	55%
	100%	100%

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Pension plan cost				
Current service cost	$ 13	$ 23	$ 41	$ 68
Interest cost on accrued benefit obligation	41	40	130	120
Return on plan assets	390	(23)	326	(35)
Actuarial losses (gains) during the period on accrued benefit obligation	(192)	(4)	(398)	(241)
	$ 252	$ 36	$ 99	$ (88)
Other adjustments:				
Difference between actual and expected return on plan assets	(439)	(24)	(478)	(104)
Amortization of actuarial losses (gains)	234	35	525	333
Transitional amounts	23	23	68	68
Net pension plan expense	$ 70	$ 70	$ 214	$ 209

Other information about the Fund's defined benefit option is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Employer contributions	$ 70	$70	$214	$209
Benefits paid	$189	$15	$218	$ 44

Actuarial valuation for the Fund's pension plan is generally required every three years. The most recent actuarial valuation of the Fund's pension plan was conducted as of December 31, 2006.

Weighted average assumptions:

	September 30, 2008	December 31, 2007
Weighted average of the amounts assumed in accounting for the plan:		
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	6.50%	5.50%
Discount rate at the end of preceding period used to determine the benefit cost	5.50%	5.00%
Rate of compensation increase used to determine the accrued benefit obligation	3.50%	2.50%
Rate of compensation increase used to determine the benefit cost	2.50%	2.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

The net expense for the Fund's defined contribution option for the three months ended September 30, 2008 and 2007 was $520 and $463 and for the nine months ended September 30, 2008 and 2007 was $1,558 and $1,369, respectively.

16. NET INCOME PER UNIT

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Basic:				
Net income	$ 557	$ 2,907	$ 5,792	$ 7,631
Weighted average number of Units outstanding	35,202,126	22,098,188	27,978,499	22,074,803
Diluted:				
Net income	$ 557	$ 2,907	$ 5,792	$ 7,631
Non-controlling interest	88	747	1,270	1,973
Net income available to Unitholders and Class B LP Unitholders	$ 645	$ 3,654	$ 7,062	$ 9,604
Weighted average number of Units outstanding – Basic	35,202,126	22,098,188	27,978,499	22,074,803
Weighted average exchangeable Class B LP Units outstanding	5,575,231	5,686,172	5,518,812	5,709,557
Dilutive effect of Class B LP Units in connection with the Heath acquisition	242,994	—	403,514	—
Weighted average number of Units outstanding – Diluted	41,020,351	27,784,360	33,900,825	27,784,360
Net income per Unit Basic and Diluted	$ 0.016	$ 0.132	$ 0.207	$ 0.346

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended
September 30, 2008 and 2007
(Unaudited)
(In thousands of dollars, except unit and per unit amounts)

17. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Accounts receivable	$ (1,973)	$1,004	$ (5,245)	$(5,068)
Unbilled fees	(1,264)	527	(3,361)	1,299
Income taxes recoverable/ payable	(376)	(276)	(905)	564
Prepaid expense and other	(1,372)	17	(2,548)	(5)
Accounts payable and accrued liabilities	(1,879)	2,023	(2,485)	(2,362)
Deferred revenue	(394)	370	(431)	755
	$ (7,258)	$3,665	$(14,975)	$(4,817)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest paid	$ 2,089	$ 389	$ 3,406	$ 1,234
Income taxes paid (refunded)	$ 497	$ 432	$ 737	$ (54)
Promissory notes issued to vendors on acquisition of Shepell•fgi	$71,358	$ —	$ 71,358	$ —

18. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at September 30, 2008 the minimum payments not including operating expenses, due in each of the next five years and thereafter, are expected to be as follows for each year ending December 31:

2008 (remainder)	$ 3,394
2009	13,446
2010	12,872
2011	11,555
2012	10,532
Thereafter	48,075
Total	$99,874

In addition, the Fund has two subleases for which the Fund is liable for the rent in case of a default by the subtenants. The average annual rent for the leases are $192 and $244 and expire on October 30, 2011 and June 29, 2017, respectively. The fair value of the total future lease payments as at September 30, 2008 was $1,935. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

19. CONTINGENCIES

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

20. ECONOMIC DEPENDENCE

Revenue from the Fund's largest client for the three and nine months ended September 30, 2008 was approximately 6% and 8%, respectively (for three and nine months ended September 30, 2007 – 10%) and its top 10 clients, in the aggregate, accounted for approximately 22% and 25%,

respectively (for three and nine months ended September 30, 2007 – 29% and 31%, respectively).

Accounts receivable from the Fund's largest client was approximately 2% of the total accounts receivable as at September 30, 2008 (December 31, 2007 – 2%). The Fund's top 10 clients accounted for approximately 26% of the total accounts receivable as at September 30, 2008 (December 31, 2007 – 24%).

21. SEGMENTED INFORMATION

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenue				
Canada	$70,370	$35,145	$156,038	$104,510
United States	5,548	2,086	11,378	5,869
	$75,918	$37,231	$167,416	$110,379

	September 30, 2008	December 31, 2007
Assets:		
Canada	$675,880	$332,397
United States	7,393	2,031
Liabilities:		
Canada	$348,991	$136,367
United States	2,317	393

22. MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its cash (bank indebtedness), long-term debt, promissory notes, non-controlling interests and Unitholders' equity. The Fund's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining the

distributions to its Unitholders and the growth of the Fund's business through organic growth and new acquisitions.

The Fund manages the capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as taking into consideration changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to Unitholders, issue new or repurchase existing Units and assume new or repay existing debt. The Fund will also review its level of equity in the context of the change in taxation impacting the Fund commencing in 2011.

The credit facilities and promissory notes require the Fund to maintain certain financial covenants. Management also uses these ratios as key indicators in managing the Fund's capital.

Distributions are made to Unitholders monthly. Various ratios of distributions to available cash, cash from operating activities and EBITDA are used by management and the Board of Trustees to assist with the determination of distributions.

23. FINANCIAL INSTRUMENTS

The following table summarizes information regarding the carrying value of the Fund's financial instruments:

	September 30, 2008	December 31, 2007
Held for trading (i)	$ —	$ 3,683
Loans and receivables (ii)	49,638	28,243
Other financial liabilities (iii)	264,917	51,691

(i) Includes cash and Interest-rate swap agreements not designated as hedges.

(ii) Includes accounts receivable and income taxes recoverable.

(iii) Includes accounts payable and accrued liabilities, Unitholder distributions payable, bank indebtedness, future considerations related to acquisition, long-term debt, promissory notes and other liabilities.

Fair value

The fair value of the Fund's financial assets and liabilities approximate carrying values due to their short-term nature or with respect to the long-term debt instruments, because they bear interest at market rates. The fair value of interest-rate swaps was determined using estimated future discounted cash flows using a comparable market rate of interest. The Fund does not enter into financial instruments for trading or speculative purposes.

Interest rate risk

The Fund is subject to interest rate risk as its secured term loan bears interest at market rates. 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. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based.

A sensitivity analysis that assumes interest rates increased or decreased by 50 basis points with all other variables held constant would result in an increase (decrease) of the Fund's interest expense, excluding the interest subjected to interest-rate swap agreements, by $21.

Credit risk

The Fund's exposure to credit risk is limited to carrying amount of cash, accounts receivable and interest-rate swap agreements recognized at the balance sheet date.

The aging of fees receivable was:

	September 30, 2008	December 31, 2007
Current	$19,041	$ 9,524
Past due 1 - 30 days	9.901	9,416
Past due 31 - 90 days	11,193	5,643
Past due over 90 days	8,431	2,946
	$48,566	$27,529

The Fund believes that the credit risk of accounts receivable is limited for the following reasons:

(1) Risk associated with concentration of credit risk with respect to accounts receivable is limited due to the credit rating of the Fund's top 10 clients (note 20). The Fund has over 8,000 clients, with no client accounting for greater than 1% of total revenue with the exception of the top 10 clients.

(2) Management regularly reviews and assesses customer accounts and credit risk. Historically, bad debt as a percentage of revenue has been minimal.

The Fund determines its allowance for doubtful accounts based on it's best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectible are written off. The allowance for doubtful accounts as at September 30, 2008 was $964 (December 31, 2007 – $76).

The credit risk on cash and interest-rate swap agreements is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Foreign exchange risk

The Fund realizes a portion of sales in U.S. dollars and has operations in the United States and thus is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars for the three and nine months ended September 30, 2008 were approximately US$1,551 and US$4,057, respectively.

As at September 30, the Fund did not engage in currency hedging activities and did not own other instruments that may be settled by the delivery of non-financial assets. The exchange gain (loss) for the three months ended September 30, 2008 and 2007 were $344 and $(157) and for the nine months ended September 30, 2008 and September 30, 2007 were $459 and $(375), respectively.

As at September 30, 2008, the Fund's net exposure to currency risk through its current assets and liabilities dominated in US dollars was US$4,550. Assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollars would result in an increase (decrease) of $228 in the Fund's net income.

Liquidity risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they fall due. The Fund manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 22.

All current liabilities are due for payment within twelve months of the balance sheet date. The maturity dates for Future considerations related to acquisitions and long-term debt are disclosed in Notes 3, 7 and 8.

24. ENVIRONMENTAL REPORTING

As a consulting company, the Fund does not have environmental concerns.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or regrouped to conform with the financial presentation adopted in the current period.

26. SUBSEQUENT EVENT

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.

The purchase price is contingent on business results and is expected to be approximately $7,000 payable in three instalments. The first instalment was satisfied on closing through cash and equity consideration. The second and third instalments, which are subject to revenue adjustments and annual compound interest will be settled on January 1, 2010 and April 1, 2011 respectively.

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 three and nine months ended September 30, 2008 and should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements of the Fund and notes thereto for the three and nine months ended September 30, 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 EBITDA, Standardized Distributable Cash, Adjusted Consolidated Distributable Cash, Standardized Distributable Cash Payout Ratio and Adjusted Consolidated Distributable Cash Payout Ratio. We believe that 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.*

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 35,304,387 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 86.6% 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 13.4% 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 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.

As at September 30, 2008, 35,304,387 Units and 5,472,970 Special Voting Units of the Fund were issued and outstanding, and 5,472,970 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 2,300 employees in offices across North America, Morneau Sobeco Income Fund offers its services to over 7,000 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 and employee assistance program services. 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

In the third quarter of 2008 we met our expectations, from both a revenue and profitability standpoint. This quarter includes the results from the acquisition of Shepell•fgi which closed on June 2, 2008. For the three and nine months ended September 30, 2008 revenue growth was 103.9% and 51.7%. Net Income for the three and nine months ended September 30, 2008 was $0.6 million and $5.8 million respectively. Our EBITDA margin for the three and nine months ended September 30, 2008 remained strong at 18.4% and 19.6%, respectively. Adjusting for the salary component of the Heath acquisition[1] in the amount of $0.3 million and

(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.

$1.0 million for the three and nine months ended September 30, 2008 and in the amount of $0.2 million and 0.8 million for the three and nine months ended September 30, 2007, respectively, the EBITDA margin was 18.7% and 20.2% for the three and nine months ended September 30, 2008 compared to 20.7% and 21.9% for the same period in 2007, respectively. EBITDA per Unit (basic) for the three and nine months ended September 30, 2008 was $0.342 and $0.979 respectively which represents an increase of 26.9% and 16.0% respectively over the same periods in 2007. Adjusted Consolidated Distributable Cash per Unit (basic) grew 16.4% and 11.9% over the same periods and reflects the structure and accretion of the Shepell•fgi acquisition.

During the second quarter, we completed our acquisition of Shepell•fgi for a total purchase price of $320 million including estimated transaction costs of $1.2 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 $220 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 favourably positioned post 2010, when the tax treatment of income funds changes.

Our strategy of focusing on our core services, while considering accretive acquisitions, continues. On October 1, 2008, we 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. The purchase price is contingent on business results, and is expected to be $7 million. This acquisition is immediately accretive to our Adjusted Consolidated Distributable Cash per Unit, and strengthens our position in Western Canada as pension advisors.

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

Our financial results reflect our continuing stability. As the North American economy faces more challenging economic conditions, 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 three and nine months ended September 30, 2008 and 2007 and for the years ended December 31, 2007 and 2006.

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Year Ended December 31, 2007	Year Ended December 31, 2006
	(In thousands of dollars)					
Cash flow from operating activities	$ 4,763	$10,976	$ 15,235	$ 17,866	$ 27,878	$31,023
Net income	557	2,907	5,792	7,631	12,120	13,973
Distributions to Unitholders, including Class B LP Units	9,629	6,131	23,057	18,129	24,257	23,134
Excess/(shortfall) of cash flow from operating activities over distributions	(4,866)	4,845	(7,822)	(263)	3,621	7,889
(Shortfall) of net income from operating activities over distributions	(9,072)	(3,224)	(17,265)	(10,498)	(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 shortfall of cash flow from operating activities over distributions for the nine months ended September 30, 2008 was 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. In addition, prepaid expenses increased due to the payment of long term incentive plan awards for new hires in 2008 as a result of the Shepell•fgi acquisition. Based on our current budget and past history we expect that our cash flow from operating activities will exceed our distributions by year end.

The Standardized Distributable Cash Payout Ratios for the three and nine months ended September 30, 2008 were 248.6% and 171.1% respectively compared to 60.2% and 110.8% for the same period in 2007. The Standardized Distributable Cash Payout Ratio was 126.2% on a twelve-month rolling basis ending September 30, 2008 compared to 95.0% for the same period in 2007. The increase in the above ratio is due to the decline in non-cash operating working capital as described above.

The Adjusted Consolidated Distributable Cash Payout Ratio for the three and nine months ended September 30, 2008 was 86.5% and 80.7% compared to 94.1% and 85.6% for the same period in 2007. The Adjusted Consolidated Distributable Cash Payout Ratio was 81.8% on a twelve-month rolling basis ending September 30, 2008 compared to 85.9% for the same period in 2007. The favorable decline in the above ratios is due to the Shepell•fgi acquisition which, as expected, has provided a positive impact on the Fund's Adjusted Consolidated Distributable Cash.

ANALYSIS OF 2008 THIRD QUARTER OPERATING RESULTS

Results of Operations

Selected Unaudited Consolidated Financial Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	(In thousands of dollars except per unit amounts)			
Revenue	$75,918	$37,231	$167,416	$110,379
Deduct:				
Salary, benefit and contractor expenses	48,815	22,713	105,580	65,960
Other operating expenses	13,170	7,037	29,028	20,968
Interest	4,016	337	7,022	1,105
Amortization of capital and intangible assets	11,427	4,435	22,676	13,086
Income taxes (recovery)	(2,155)	(945)	(3,952)	(344)
Non-controlling interest	88	747	1,270	1,973
Net income for the period	557	2,907	5,792	7,631
Add (deduct):				
Amortization of capital and intangible assets	11,427	4,435	22,676	13,086
Income taxes (recovery)	(2,155)	(945)	(3,952)	(344)
Interest	4,016	337	7,022	1,105
Non-controlling interest	88	747	1,270	1,973
EBITDA[(1)]	$13,933	$ 7,481	$ 32,808	$ 23,451
EBITDA margin	18.4%	20.1%	19.6%	21.2%
Cash from operating activities	$ 4,763	$10,976	$ 15,235	$ 17,866
Deduct: Capital expenditures	888	796	1,648	1,507
Consolidated Distributable Cash[(2)]	3,875	10,180	13,587	16,359
Deduct: Consolidated Distributable Cash available to non-controlling interest	530	2,083	2,319	3,355
Standardized Distributable Cash (available for Unitholders)[(3)]	$ 3,345	$ 8,097	$ 11,268	$ 13,004
Consolidated Distributable Cash[(2)]	$ 3,875	$10,180	$ 13,587	$ 16,359
Add (deduct): Non-cash operating working capital	7,258	(3,665)	14,975	4,817
Adjusted Consolidated Distributable Cash[(4)]	$11,133	$ 6,515	$ 28,562	$ 21,176
Net income per Unit (basic and diluted)	$ 0.016	$ 0.132	$ 0.207	$ 0.346
EBITDA per Unit (basic)	$ 0.342	$ 0.269	$ 0.979	$ 0.844
Standardized Distributable Cash per Unit (basic)	$ 0.095	$ 0.366	$ 0.403	$ 0.589
Adjusted Consolidated Distributable Cash per Unit (basic)	$ 0.273	$ 0.234	$ 0.853	$ 0.762
Standardized Distributions declared per Unit (basic)	$ 0.236	$ 0.221	$ 0.683	$ 0.652
Standardized Distributable Cash Payout Ratio[(5)]	248.6%	60.2%	171.1%	110.8%
Adjusted Consolidated Distributable Cash Payout Ratio[(6)]	86.5%	94.1%	80.7%	85.6%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	126.2%	95.0%	126.2%	95.0%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	81.8%	85.9%	81.8%	85.9%

Footnotes:

(1) "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.

Revenue

Revenue for the three months ended September 30, 2008 increased by $38.7 million, or 103.9%, to $75.9 million compared to $37.2 million for the same period in 2007. The increase in revenue was primarily due to revenue related to the acquired business of Shepell•fgi of $37.1 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 September 30, 2008 increased by $26.1 million, or 114.9%, to $48.8 million compared to $22.7 million for the same period in 2007. The increase was attributable to salary, benefit and contractor costs of $25.4 million due to the Shepell•fgi acquisition and general increases of $0.7 million.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2008 increased by $6.2 million or 87.2%, to $13.2 million compared to $7.0 million for the same period in 2007. The increase was primarily attributable to operating expenses of $5.2 million related to Shepell•fgi, increased occupancy expenses of $0.6 million due to various office expansions and relocations as well as general increases of $0.4 million.

Interest Expense

Interest expense for the three months ended September 30, 2008 increased by $3.7 million to $4.0 million compared to $0.3 million for the same period in 2007. The increase was primarily due to $1.8 million higher interest expense 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 Shepell•fgi acquisition, and amortization of debt issuance costs of $0.1 million on the new term loan.

Amortization of Capital and Intangible Assets

Amortization for the three months ended September 30, 2008 increased by $7.0 million, or 157.7%, to $11.4 million compared to $4.4 million for the same period in 2007. The

increase was attributable to the increase in capital and intangible assets as a result of the acquisition of Shepell•fgi on June 2, 2008.

Income Tax Expense (Recovery)

Income tax recovery for the three months ended September 30, 2008 increased by $1.2 million to $2.1 million compared to income tax recovery of $0.9 million for the same period in 2007. The increase was primarily attributable to the taxable loss carryforwards 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 September 30, 2008 was $0.6 million compared to the net income of $2.9 million for the same period in 2007.

Cash from Operating Activities

Cash from operating activities for the three months ended September 30, 2008 decreased by $6.2 million to $4.8 million compared to $11.0 million for the same period in 2007. This decrease was primarily due to decreased changes in non-cash operating working capital of $10.9 million (see below) and increased interest payments of $1.7 million related to the Fund's new debt and revolving loan. This was partially offset by an improved EBITDA of $6.5 million.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended September 30, 2008 decreased by $10.9 million to a use of $7.2 million compared to a source of $3.7 million for the same period in 2007. The decrease was primarily attributable to increased receivables and unbilled fees of $4.8 million due to growth in the outsourcing business and the billing terms related to the EAP contracts, increased prepaid expenses of $1.4 million partially due to the payment of long term incentive plan amounts awarded in the quarter, decreases in accounts payable and accrued liabilities of $3.9 million mainly as a result of payments of professional fees related to the Shepell•fgi acquisition as well as changes in deferred revenue related to the billing of the EAP contracts of $0.7 million.

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

EBITDA

EBITDA for the three months ended September 30, 2008 increased by $6.5 million, or 86.2%, to $13.9 million compared to $7.5 million for the same period in 2007. The increase was due to increased revenue of $38.7 million offset by increased salary, benefit and contractor expenses and other operating expenses of $32.2 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended September 30, 2008 decreased by $4.8 million to $3.3 million compared to $8.1 million for the same period in 2007. This decrease was primarily due to decreased cash from operating activities of $6.2 million and increased capital expenditures of $0.1 million, which was partially offset by a decrease of $1.5 million in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the three months ended September 30, 2008 increased by $4.6 million to $11.1 million compared to $6.5 million for the same period in 2007. The increase was primarily due to increased EBITDA of $6.5 million. This was partially offset by additional interest paid of $1.7 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 RESULTS

Revenue

Revenue for the nine months ended September 30, 2008 increased by $57.0 million, or 51.7%, to $167.4 million compared to $110.4 million for the same period in 2007. The increase in revenue was primarily due to revenue related to the acquired business of Shepell•fgi of $49.4 million, the inclusion of Cowan DB business[2] of $2.4 million as well as additional outsourcing, EAP and Health Management business from a variety of clients.

(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.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the nine months ended September 30, 2008 increased by $39.6 million, or 60.1%, to $105.6 million compared to $66.0 million for the same period in 2007. The increase was attributable to increased salary, benefit and contractor costs of $33.6 million due to the Shepell•fgi acquisition and $1.2 million due to the Cowan DB business acquisition, adjustment related to Heath salary component of $0.3 million and general increases of $4.5 million.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2008 increased by $8.0 million or 38.4%, to $29.0 million compared to $21.0 million for the same period in 2007. The increase was primarily attributable to operating expenses of $6.6 million related to Shepell•fgi, increased occupancy expenses of $0.7 million due to various office expansions and relocations, increased technology expenses of $0.5 million as well as general increases of $0.8 million. This was partially offset by foreign exchange gains of $0.2 million for the quarter compared to losses of $0.4 million for the same quarter last year.

Interest Expense

Interest expense for the nine months ended September 30, 2008 increased by $5.9 million to $7.0 million compared to $1.1 million for the same period in 2007. The increase was primarily due to higher interest expense of $2.2 million on the new credit facility obtained to finance the Shepell•fgi acquisition, accretion interest of $2.4 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 $0.1 million debt issue costs related to new debt. In addition, the Fund recognized a loss of $0.7 million during the first quarter of 2008 due to the change in the market value of the interest-rate swaps, compared to a gain of $0.2 million for the nine months ended September 30, 2007.

Amortization of Capital and Intangible Assets

Amortization for the nine months ended September 30, 2008 increased by $9.6 million, or 73.3%, to $22.7 million compared

to $13.1 million for the same period in 2007. The increase was attributable to the increase in capital and intangible assets as a result of the acquisition of Shepell•fgi on June 2, 2008.

Income Tax Expense (Recovery)

Income tax recovery for the nine months ended September 30, 2008 increased by $3.6 million to $3.9 million compared to income tax recovery of $0.3 million for the same period in 2007. The increase was primarily attributable to the taxable loss carryforwards 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. In addition, the 2007 amount includes a future tax expense of $2.7 million at the initial application of the SIFT rules in June 2007.

Net Income

As a result of the changes noted above, the net income for the nine months ended September 30, 2008 was $5.8 million compared to the net income of $7.6 million for the same period in 2007.

Cash from Operating Activities

Cash from operating activities for the nine months ended September 30, 2008 decreased by $2.6 million to $15.2 million compared to $17.8 million for the same period in 2007. This decrease was primarily due to decreased changes in non-cash operating working capital of $10.1 million (see below), increased capital expenditures of $0.1 million and increased interest payments of $2.4 million related to the Fund's new debt (including swap termination fees) and revolving loan. This was partially offset by an improved EBITDA of $9.7 million after taking into account the salary component of Heath acquisition of $0.3 million, and a net decrease in current taxes of $0.4 million.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the nine months ended September 30, 2008 decreased by $10.1 million to a use of cash of $14.9 million compared to use of cash of $4.8 million for the same period in 2007. The decrease was primarily attributable to increased receivables and unbilled fees of $4.8 million due to the growth in outsourcing business and the billing terms related to EAP contracts, increased prepaid

expenses of $2.5 million mainly due to payment of long term incentive plan amounts, increased income tax recoverable of $1.5 million and decreased changes in deferred revenue related to the billing of the EAP contracts of $1.2 million.

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

EBITDA

EBITDA for the nine months ended September 30, 2008 increased by $9.4 million, or 39.9%, to $32.8 million compared to $23.4 million for the same period in 2007. The increase was due to increased revenue of $57.0 million offset by increased salary, benefit and contractor expenses and other operating expenses of $47.6 million.

Standardized Distributable Cash

Standardized Distributable Cash for the nine months ended September 30, 2008 decreased by $1.7 million to $11.3 million compared to $13.0 million for the same period in 2007. This decrease was primarily due to decreased cash from operating activities of $2.6 million and increased capital expenditure of $0.1 million, which was partially offset by decrease of $1.0 million in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the nine months ended September 30, 2008 increased by $7.4 million to $28.6 million compared to $21.2 million for the same period in 2007. The increase was primarily due to increased EBITDA of $9.7 million after taking into account the salary component of Heath acquisition of $0.3 million. This was partially offset by additional interest paid of $2.4 million.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	(In thousands of dollars)			
Cash provided by (used in):				
Operating activities	$ 4,763	$10,976	$ 15,235	$ 17,866
Investing activities	(3,983)	(796)	(251,750)	(5,034)
Financing activities	(1,930)	(9,931)	230,766	(18,274)
Increase (decrease) in cash	$(1,150)	$ 249	$ (5,749)	$ (5,442)

2008 Third Quarter Results

Cash from operating activities for the three months ended September 30, 2008 decreased by $6.2 million to $4.8 million compared to $11.0 million for the same period in 2007. This decrease was primarily due to decreased changes in non-cash operating working capital of $10.9 million and increased interest payment of $1.7 million related to the Fund's new debt and revolving loan. This was offset by an improved EBITDA of $6.5 million.

Cash outflows from investing activities for the three months ended September 30, 2008 increased by $3.2 million to $4.0 million compared to cash outflows of $0.8 million for the same period in 2007. This increase was primarily attributable to payment of $2.1 million, related to the Shepell•fgi acquisition, the payment of second instalment of $1.0 million for the Cowan DB Business acquisition and increased capital expenditures by $0.1 million.

Cash from financing activities for the three months ended September 30, 2008 increased by $8.0 million to $1.9 million compared to a cash outflow of $9.9 million for the same period in 2007. This increase was primarily due to the utilization of the revolving loan of $7.7 million to finance the remaining unsettled portion of the Shepell•fgi acquisition of $2.1 million and related professional fees of $2.6 million, the second

instalment of Cowan DB business acquisition of $1.0 million and the payment of the long term incentive plan amount of $1.8 million, compared to repayment of $3.8 million operating line of credit in the same period of 2007. In addition, distribution payments increased by $3.5 million due to the additional 12,750,000 units issued in June 2008 related our public offering for Shepell•fgi acquisition, 242,997 units issued in June 2008 related to the Heath acquisition and the 7% increase to our target monthly distribution from $0.07356 per Unit to $0.07871 per Unit, following the closing of Shepell•fgi acquisition.

Nine Months Ended September 30, 2008 and 2007

Cash from operating activities for the nine months ended September 30, 2008 decreased by $2.6 million to $15.2 million compared to $17.8 million for the same period in 2007. This decrease was primarily due to decreased changes in non-cash operating working capital of $10.1 million, increased capital expenditures of $0.1 million and increased interest payments of $2.4 million related to the Fund's new debt (including swap termination fees) and revolving loan. This was partially offset by an improved EBITDA of $9.7 million after taking into account the salary component of Heath acquisition of $0.3 million, and a net decrease in current taxes of $0.4 million.

Cash outflows from investing activities for the nine months ended September 30, 2008 increased by $246.7 million to $251.7 million compared to cash outflows of $5.0 million for the same period in 2007. This increase was primarily attributable to cash consideration paid, net of cash assumed, for the Shepell•fgi acquisition of $248.3 million, payment of the second instalment of $0.8 million for the Heath acquisition and payment of the second instalment of $1.0 million for the Cowan DB Business acquisition, compared to cash consideration of $3.5 million paid for Cowan DB business acquisition in June 2007.

Cash from financing activities for the nine months ended September 30, 2008 increased by $249.0 million to $230.7 million compared to cash outflows of $18.3 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 $142.5 million and net proceeds from long term debt net of debt issue costs of $100.1 million. This was also due to utilization of the revolving loan of $10.0 million to finance a portion of the Shepell•fgi acquisition

of $5.9 million, the second instalment of Heath acquisition of $0.8 million, the second instalment of Cowan DB business acquisition of $1.0 million and the payment of the long term incentive plan amount of $1.8 million. In addition, distribution payments increased by $3.6 million due to the additional 12,750,000 units issued in June 2008 related our public offering for Shepell•fgi acquisition, 242,997 units issued in June 2008 related to the Heath acquisition and the 7% increase to our target monthly distribution from $0.07356 per Unit to $0.07871 per Unit, following the closing of 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

	Total	2008 to 2009	2010 to 2011	Beyond 2011
	(In thousands of dollars)			
Term loan	$137,000	$ —	$ —	$137,000
Revolving loan	10,000	10,000	—	—
Promissory notes	79,500	75,000	4,500	—
Operating leases	99,874	16,840	24,427	58,607
Total	$326,374	$101,840	$28,927	$195,607

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 was paid on August 1, 2008. 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. In addition, we have issued a standby letter of credit in the amount of $0.4 million which will be paid before December 31, 2008 to the extent the vendor has performed all of its transition services obligations.

The purchase price for Heath is $16.8 million, including estimated consideration to compensate for forgone distributions payable on its third instalment during the period June 1, 2006 to December 31, 2008. The purchase price is being paid in three instalments. The first instalment of $9.0 million was made on closing in 2006. The second instalment was paid on June 30, 2008 by cash of $0.8 million and $3.0 million in Class B LP Units of MS Group LP based on a predetermined value of $12.52 per Unit. The third instalment will be settled on December 1 of 2008 in the same manner as the second instalment.

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	As at September 30, 2008	As at December 31, 2007
	(In thousands of dollars)	
Cash (bank indebtedness)	$ (2,851)	$ 2,898
Revolving loan	$ 10,000	$ —
Long-term debt, net of unamortized debt issue cost	$135,280	$ 34,913
Promissory notes ($29,919 under current liabilities)	$ 73,738	$ —
Unitholders' equity	$331,965	$197,668

We have historically utilized cash from operations to finance working capital requirements and fund growth. As at September 30, 2008, the Fund's working capital (current assets

minus current liabilities), excluding the current portion of promissory note of $29.9 million and future considerations related to acquisition of $1.1 million, was approximately $19.1 million.

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 and Shepell•fgi.

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.

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

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

rolling twelve months earnings before interest, taxes, deprecation and amortization of the Fund and Shepell•fgi

The Fund complied with all the required financial covenants and the ratios as at September 30, 2008 were 3.25:1 and 8.4:1 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 $2.4 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%, subject to the Fund's ability to issue new Units under the guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. In addition, the Fund has available $40 million 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	As at September 30, 2008	As at December 31, 2007
	(in thousands of dollars)	
Current assets	$ 69,622	$ 35,224
Other long-term assets	$613,651	$299,204
Current liabilities	$ 81,573	$ 16,319

Current Assets

Current assets as at September 30, 2008 increased by $34.4 million to $69.6 million from $35.2 million as at December 31, 2007. The increase was primarily due to increased accounts receivable and unbilled fees of $31.3 million, increased prepaid expenses of $4.5 million and increased income tax recoverable of $1.5 million, largely due to the Shepell•fgi acquisition, growth in the outsourcing business and the payment of long term incentive plan amounts. This was partially offset by decreased cash of $2.9 million.

Other Long-Term Assets

Other long-term assets as at September 30, 2008 increased by $314.4 million to $613.6 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 $6.7 million, the addition of intangible assets net of amortization of $178.4 million, the addition of goodwill of $121.6 million and an increase in future income tax assets of $3.9 million primarily related to the Shepell•fgi acquisition. 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 September 30, 2008 increased by $65.3 million to $81.6 million from $16.3 million as at December 31, 2007. The increase was primarily related to increased accounts payable and accrued liabilities of $19.1 million, increased deferred revenue of $1.9 million, increased bank borrowing of $12.9 million and increased Unitholder distributions payable of

$1.2 million, largely due to the Shepell•fgi acquisition. In addition included in current liabilities is $29.9 million of the promissory note issued for 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 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. 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 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. The Fund is currently assessing the impact this new standard will have on its consolidated financial statements, if any.

2. International Financial Reporting Standards – The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Fund is currently assessing the new standards and has not yet determined the impact on its consolidated financial condition.

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

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 three and nine months ended September 30, 2008, Morneau Sobeco's largest client accounted for approximately 6% and 8% of revenue (three and nine months ended September 30, 2007 – 10%) and its top 10 clients, in the aggregate, accounted for approximately 22% and 25% of revenue, respectively (three and nine months ended September 30, 2007 – 29% and 31% respectively). 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.

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 brokerage firms, 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. As at September 30, 2008, the firm did not engage in currency hedging activities. The net revenue exposure after accounting for related expenses denominated in U.S. dollars was approximately US$1.5 million and US$4.1 million, respectively for the three and nine months ended September 30, 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 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 was released on July 14, 2008. 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.

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 13.4% 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

	Quarter ended							
	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006
	(In thousands of dollars except per unit amounts)							
Revenue	$ 75,918	$ 52,363	$ 39,134	$ 36,707	$ 37,231	$ 37,057	$ 36,091	$ 34,079
Net income	557	2,456	2,780	4,489	2,907	1,680	3,045	3,010
EBITDA[1]	13,933	10,486	8,389	7,391	7,481	8,106	7,865	7,890
EBITDA margin	18.4%	20.0%	21.4%	20.1%	20.1%	21.9%	21.8%	23.2%
Standardized Distributable Cash[2]	3,345	10,035	(258)	7,812	8,097	5,835	(927)	7,210
Adjusted Consolidated Distributable Cash	11,133	9,730	7,700	7,025	6,515	7,223	7,439	6,977
Distributions declared	9,629	7,296	6,132	6,131	6,131	6,131	5,865	6,050
Net income per Unit (basic)[1]	$ 0.016	$ 0.093	$ 0.125	$ 0.203	$ 0.132	$ 0.076	$ 0.138	$ 0.136
Net income per Unit (diluted)[1]	$ 0.016	$ 0.091	$ 0.125	$ 0.203	$ 0.132	$ 0.076	$ 0.138	$ 0.136
EBITDA per Unit (basis)	$ 0.342	$ 0.329	$ 0.302	$ 0.266	$ 0.269	$ 0.292	$ 0.283	$ 0.284
Standardized Distributable Cash per Unit (basic)	$ 0.095	$ 0.310	$ (0.012)	$ 0.352	$ 0.366	$ 0.264	$ (0.042)	$ 0.327
Adjusted Consolidated Distributable Cash per Unit (basic)	$ 0.273	$ 0.305	$ 0.277	$ 0.253	$ 0.234	$ 0.260	$ 0.268	$ 0.251
Distributions declared per Unit (basic)	$ 0.236	$ 0.226	$ 0.221	$ 0.221	$ 0.221	$ 0.221	$ 0.211	$ 0.218
Standardized Distributable Cash Payout Ratio (basic)[3]	248.6%	73.9%	NM	62.6%	60.2%	83.4%	NM	66.6%
Adjusted Consolidated Distributable Cash Payout Ratio	86.5%	75.0%	79.6%	87.3%	94.1%	84.9%	78.8%	86.7%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	126.2%	87.0%	90.8%	92.7%	95.0%	90.6%	83.5%	77.9%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	81.8%	82.9%	86.2%	86.0%	85.9%	84.3%	83.3%	85.3%
Total assets	$683,273	$688,804	$328,665	$334,428	$337,391	$342,569	$338,530	$345,872
Total long-term debt	$135,280	$135,162	$ 34,926	$ 34,913	$ 34,901	$ 34,888	$ 34,876	$ 35,000

(1) In the second quarter of 2007 we recorded a non-cash charge to earnings of $2.7 million. The charge relates to our future tax liabilities recorded as a result of Bill C-52 which received Royal Assent on June 22, 2007. This non-cash charge relates to temporary differences between the accounting and tax bases of our assets and liabilities primarily related to intangible assets. The charge has no current impact on our cash flow, EBITDA, Standardized Distributable Cash and Adjusted Consolidated Distributable Cash.

(2) 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.

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

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 operating effectively based on the evaluation of these controls and procedures conducted at September 30, 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.

No changes were made in the Fund's internal controls over financial reporting during the nine months ended September 30, 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 finalize the review during 2009.

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

- Revenue for the four months ended September 30, 2008 of $50.2 million
- Current and non-current assets as at September 30, 2008 of $31.6 million and $7.8 million respectively.
- Current and non-current liabilities as at September 30, 2008 of $21.5 million and $6.7 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 November 13, 2008.

MORNEAU SOBECO

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

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

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