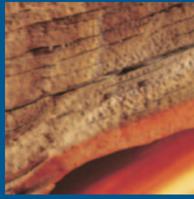
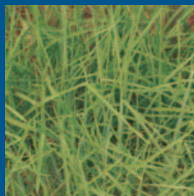
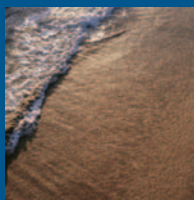


Morneau Sobeco Income Fund

2006 Third Quarter Results

MORNEAU SOBECO

November 14, 2006

To Our Unitholders

Morneau Sobeco Income Fund (the "Fund") is pleased to present its financial results for the period ended September 30, 2006. These results reflect the solid performance of the Fund's operating business in the quarter. In order to provide investors with a more meaningful assessment of the Fund's performance, and for comparison purposes, the 2005 figures mentioned in this report include the results for the Fund's predecessor company, W.F. Morneau Services Inc.

Morneau Sobeco had a strong third quarter. The positive impact of our recent acquisition of Heath Benefits Consulting minimized the usual seasonal impact of employee vacations on the quarter, as reported previously.

Revenue for the three months ended September 30, 2006 increased by $4.1 million, or 14%, to $33.0 million compared to $29.0 million for the same period in 2005. Revenue increased by $2.8 million due to the Heath acquisition, and by additional consulting and outsourcing business from a variety of clients.

Net income for the three months ended September 30, 2006 increased by $3.8 million to $1.8 million compared to net loss of $2.0 million for the same period in 2005. Earnings before interest, taxes, depreciation and amortization, adjusted for compensation changes related to the firm's new public status (adjusted EBITDA) increased $2.2 million, or 46.4%, to $7.0 million for the three months ended September 30, 2006 compared to $4.8 million for the same period in 2005. The increase in EBITDA is due to increased revenue of $4.0 million partially offset by increased operating costs of $1.5 million and a salary component of $0.3 million related to the Heath acquisition.

The firm's EBITDA margin remains solid at 21.3% in this three-month period, compared with an adjusted EBITDA margin of 16.6% in the corresponding period last year. Eliminating the effects of the portion of the Heath acquisition consideration that is considered a salary component results in an EBITDA margin of 22.2% for the three months ended September 30, 2006.

As a result of adopting the CSA Staff Notice 52-306 (Revised), the third quarter's Distributable Cash calculation has been revised compared to previous reports to incorporate the changes in non-cash operating working capital. This change enables the Fund's Distributable Cash to reconcile back to the GAAP measure, Cash from Operating Activities. The Fund's Total Distributable Cash increased by $4.2 million, or 61.4%, to $11.0 million for the three months ended September 30, 2006 relative to $6.8 million for the same period in 2005. This increase is primarily due to improved cash from adjusted operating activities of $4.3 million offset by higher capital expenditures of $0.1 million.

Consistent with the adoption of the CSA Notice, the Fund changed its calculation of Payout Ratio (with the Payout Ratio being Declared Distributions divided by Distributable Cash) to include changes in non-cash operating working capital which has resulted in a Payout Ratio of 52.1% for the third quarter, 83.1% for the nine months ended September 30, 2006 and 85.2% for the twelve months since becoming an income fund. Under the previous calculation method, the Payout Ratios would have been 88.7%, 85.9% and 86.3% for these periods respectively. Furthermore, after eliminating the impact of the salary component of the Heath acquisition, the Payout Ratios would have been 84.8%, 85.2% and 85.8% for the same periods respectively.

In the quarter, Morneau Sobeco appointed Pierre Chamberland, an Executive Vice President of the firm, to the newly created position of Chief Operating Officer (COO). In his new role as COO, Mr. Chamberland continues to report to me, and is responsible for the day-to-day operations of the firm. The decision to create this new role is based on our continuing aspirations to successfully grow Morneau Sobeco.

Our year-to-date results are in line with management's expectations, and the board and management continue to believe that 2006 will be a solid year for Morneau Sobeco.

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

WILLIAM MORNEAU
President & Chief Executive Officer

HIGHLIGHTS

REVENUE GROWTH IS 14%
OVER SAME PERIOD IN 2005

ROLLING 12-MONTH PAYOUT RATIO IS 85.2%

MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEET

(unaudited)
(In thousands of dollars)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash	$ 1,908	$ 4,348
Accounts receivable	23,330	22,562
Unbilled fees	4,565	4,482
Income taxes recoverable	—	659
Prepaid expenses and other	1,486	1,807
	31,289	33,858
Future income taxes (note 11)	875	600
Other assets (note 6)	910	—
Capital assets (note 4)	10,626	11,291
Intangible assets (note 5)	128,703	131,458
Goodwill (note 3)	127,320	126,511
	$299,723	$303,718
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,057	$ 4,179
Accrued compensation and related benefits	5,305	5,764
Unitholder distributions payable (including non-controlling)	2,473	2,461
Income tax payable	282	—
	12,117	12,404
Insurance premium liabilities:		
Payable to insurance companies	7,964	5,413
Less related cash and investments held	(7,964)	(5,413)
	—	—
Long-term debt (note 6)	35,000	35,000
	47,117	47,404
Non-controlling Interest (note 8)	55,852	54,322
Unitholders' Equity:		
Fund Units (note 7)	205,549	204,476
Deficit	(8,795)	(2,484)
	196,754	201,992
	$299,723	$303,718

Commitments and Contingencies (notes 13 and 14)

Robert Chisholm
Trustee,
Audit Committee Chair

William Morneau
Trustee,
President and CEO

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the three and nine months ended September 30, 2006
(unaudited)
(In thousands of dollars except unit and per unit amounts)

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Revenue		
Fees	$ 26,626	$ 85,548
Commissions	6,283	12,149
Other	128	311
	33,037	98,008
Expenses		
Salaries and benefits	19,864	57,499
Other operating	6,120	18,557
Amortization of capital assets (note 4)	535	1,556
Amortization of intangible assets (note 5)	3,676	10,845
Interest (note 6)	643	412
	30,838	88,869
Income before income taxes	2,199	9,139
Income taxes (recovery) (note 11)		
Current	15	248
Future	(80)	(275)
	(65)	(27)
Income before non-controlling interest	2,264	9,166
Non-controlling interest	(466)	(1,855)
Net income	1,798	7,311
Deficit, beginning of period	(6,043)	(2,484)
Distributions declared (note 9)	(4,550)	(13,622)
Deficit, end of period	(8,795)	(8,795)
Net income per Unit – (basic and diluted)	$0.08148	$0.33204

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three and nine months ended September 30, 2006
(unaudited)
(In thousands of dollars except unit and per unit amounts)

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Cash provided by (used in):		
Operating activities		
Net income	$ 1,798	$ 7,311
Items not involving cash:		
Amortization	4,211	12,401
Non-controlling interest of Class B LP Units	466	1,855
Future income taxes	(80)	(275)
Salary component of Heath acquisition (note 3)	293	293
Fair value of interest-rate swap agreements	203	(910)
	6,891	20,675
Change in non-cash operating working capital:		
Accounts receivable	3,423	762
Income taxes recoverable and payable	42	1,047
Unbilled fees	(577)	(84)
Prepaid expenses and other	597	424
Accrued compensation and related benefits	1,541	(459)
Accounts payable and accrued liabilities	(774)	(1,222)
	11,143	21,143
Financing activities		
Operating line of credit (note 6)	(5,100)	—
Distributions paid	(5,732)	(17,052)
	(10,832)	(17,052)
Investing activities		
Business acquisition (note 3)	—	(5,098)
Cash and bank indebtedness assumed (note 3)	—	(908)
Purchase of capital assets	(155)	(525)
	(155)	(6,531)
Net increase (decrease) in cash for the period	156	(2,440)
Cash, beginning of period	1,752	4,348
Cash, end of period	$ 1,908	$ 1,908
Supplemental disclosures:		
Interest paid	$ 423	$ 1,306
Income taxes paid (refund)	$ 38	$ (409)

See accompanying notes to consolidated financial statements.

MORNEAU SOBECO INCOME FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

(unaudited)

(In thousands of dollars except unit and per unit amounts)

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 by a Declaration of Trust made as of August 22, 2005. The Fund was established through the issuance of one unit for ten dollars.

The Fund is the largest Canadian-owned pension and benefits consulting and outsourcing firm, providing services to organizations across Canada and in the United States. The Fund focuses on the integrated design and delivery of retirement and employee compensation and benefit programs.

On September 30, 2005, the Fund completed an initial public offering ("IPO") and the sale of 19,979,284 trust units ("Units") for $10.00 per Unit, for total gross proceeds of $199,793. On October 18, 2005 the over-allotment option of the Fund's IPO was exercised resulting in the issuance of an additional 1,997,928 Units, for gross proceeds of $19,979.

On June 1, 2006, the Fund indirectly acquired all of the issued and outstanding shares of Heath Benefits Consulting Inc. ("Heath") through Morneau Sobeco Group Limited Partnership ("MS Group LP") in exchange for 312,845 Class B LP Units, $450 in cash, the assumption of debt of $4,648 and two additional instalments that will be made in 2008 subject to certain conditions (see note 3).

On June 22, 2006 the Fund issued 85,704 Units in exchange for Class B LP Units of MS Group LP and Special Voting Units.

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 Limited Partnership ("MSLP")	79.4%
Morneau Sobeco Group Limited Partnership ("MS Group LP")	79.4%
Morneau Sobeco, Ltd. ("MSUS")	79.4%
Morneau Sobeco Corporation ("MS Corp")	79.4%
Morneau Sobeco Trust ("Trust")	100%
Morneau Sobeco GP Inc. ("MS GP")	100%

As the Fund was established on August 22, 2005 and had no revenue or expenses until September 30, 2005 when the Fund acquired W.F. Morneau Services Inc., the Consolidated Statement of Income and Deficit and Consolidated Statement of Cash Flows do not reflect any comparative results for 2005.

On July 1, 2006 Heath Benefits Consulting Inc. ("Heath"), Heath Benefits Consulting AB Inc, Norfolk Living Benefits Inc, Morneau Heath Acquisition Inc and Morneau Sobeco Corporation were amalgamated and continue to operate as MS Corp.

(b) Financial instruments

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 Fund does not enter into financial instruments for trading or speculative purposes.

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 and are recorded at their fair value with a corresponding adjustment to interest expense.

(c) 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.

(d) Revenue recognition and unbilled fees

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

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 effective date of the policy, net of a provision for return commissions due to policy cancellation.

Investment income is recorded on the accrual basis.

(e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet dates. Non-monetary items have been translated into Canadian dollars at the exchange rate 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.

(f) Capital assets

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

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

(g) Intangible assets and goodwill

Intangible assets consist principally of customer relationships, proprietary software and customer contracts, based on management's best estimate of the relative fair values. These intangible assets are being amortized on a straight-line basis over their estimated useful lives of fifteen to twenty, five and three years respectively.

Goodwill is not amortized and is subject to an 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.

(h) Impairment of long-lived assets

The Fund periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Fund reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the long-lived asset exceeds its 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 sheet.

(j) Employee future benefits

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

The defined benefit option was closed effective January 1, 1998 and includes 9 employees, 3 retirees and 55 deferred vested members as at September 30, 2006. 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.

(k) Income taxes

The Fund uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future tax assets and liabilities are recognized on the basis of future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the consolidated financial statements and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the date of enactment or substantive enactment occurs.

(l) Net income per Unit

Net income per unit has been calculated based on the weighted average number of Units outstanding during the period.

3. BUSINESS ACQUISITION

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 consideration is based on future revenue from the Heath business with a minimum purchase price of $9,014. The consideration which is currently estimated to be approximately $15,400 is being paid in three instalments and is satisfied primarily through the assumption and repayment of the Heath debt of $4,648 on closing and the issuance of Class B LP Units of MS Group LP.

The first instalment of the purchase price was made on closing. The purchase price is conditional upon the success in retaining and growing revenue from specified Heath clients, as well as achieving targeted cost efficiencies. The second and third instalments, which represent contingent consideration will be settled on June 30 and December 1 of 2008 and are currently estimated to be approximately $6,400. These instalments will be settled by issuing a number of Class B LP Units of MS Group LP based on a pre-determined value of $12.52 per unit. In addition to the estimate of $15,400, contingent consideration will include amounts to compensate for foregone distributions payable on instalments 2 and 3 during the period June 1, 2006 to December 1, 2008. These contingent consideration elements will be recorded when the final purchase price has been established except for a portion of instalment 3 which is conditional on the continuing employment of certain selling shareholders and is being recorded as salary expense over the required employment period to December, 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 actual calculation and allocation of the purchase price will be based on the assets purchased and liabilities assumed at the effective date of the acquisition transaction and other information available. The first instalment of the purchase price has been accounted for as follows:

Assets and liabilities acquired:	
Cash	$ 827
Accounts receivable	1,530
Income taxes recoverable	106
Prepaid expenses and other	101
Capital assets	365
Intangible assets	8,090
Goodwill	827
Bank indebtedness	(1,734)
Accounts payable and accrued liabilities	(1,098)
Payable to insurance companies	(3,156)
Related cash balances held	3,156
	$ 9,014
Consideration:	
Cash	$ 449
Debt assumed and repaid	4,648
Exchangeable Units (first installment paid in June 06)	3,917
	$ 9,014

These consolidated financial statements include the results of Heath from the date of acquisition. On July 1, 2006 Heath and its subsidiary were amalgamated with MS Corp.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization September 30, 2006	Net Book Value September 30, 2006	Net Book Value December 31, 2005
Computer equipment	$ 1,888	$ (442)	$ 1,446	$ 1,385
Furniture and equipment	3,070	(529)	2,541	2,573
Leasehold improvements	7,691	(1,052)	6,639	7,333
	$12,649	$(2,023)	$10,626	$11,291

Amortization for the three and nine months ended September 30, 2006 was $535 and $1,556 respectively.

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization September 30, 2006	Net Book Value September 30, 2006	Net Book Value December 31, 2005
Customer relationships	$ 98,090	$ (4,720)	$ 93,370	$ 88,875
Customer contracts	5,000	(1,667)	3,333	4,583
Proprietary software	40,000	(8,000)	32,000	38,000
	$143,090	$(14,387)	$128,703	$131,458

Amortization for the three and nine months ended September 30, 2006 was $3,676 and $10,845 respectively.

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

At September 30, 2006, the Fund had a secured term loan of $35,000 with two Canadian chartered banks repayable in full on September 30, 2009. The term loan bears interest at the bankers' acceptance rate plus 1%. The Fund has entered into interest-rate swap agreements in order to fix the interest rate at 4.4% for the duration of the loan. These interest-rate swap agreements have been recorded at their fair value with the corresponding adjustment to interest expense. As at September 30, 2006 the fair value of the swap was $910.

The Fund also has available a secured operating line of credit for $15,000 with no amount drawn at September 30, 2006. The line of credit bears interest at the bankers' acceptance rate plus 1% and the undrawn portion incurs a stand-by fee of 0.20%. The bank indebtedness and term loan are secured by a general assignment of the assets of the Fund.

7. 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.

As part of the Heath acquisition, on June 1, 2006 the Fund issued 312,845 Special Voting Units.

On June 22, 2006 the Fund issued 85,704 Units in exchange for Class B LP Units of MS Group LP and Special Voting Units.

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

	September 30, 2006		December 31, 2005	
	Units Issued	Amount	Units Issued	Amount
Units	22,062,916	$205,549	21,977,212	$204,476
Special Voting Units	5,721,444	—	5,494,303	—
	27,784,360	$205,549	27,471,515	$204,476

8. NON-CONTROLLING INTEREST

The former shareholders of Morneau Sobeco retained 5,494,303 Class B LP Units of MS Group LP after over-allotment and former shareholders of Heath retained 227,141 Class B LP Units of MS Group LP, as part of the Heath acquisition. The LP Units are fully exchangeable for equal Units in the Fund, subject to certain restrictions and provide the former shareholders of Morneau Sobeco and Heath with a non-controlling interest of 20.59% in the Fund. Some of the Class B LP Units are subordinated in their rights to receive distributions.

	September 30, 2006		December 31, 2005	
	Units Issued	Amount	Units Issued	Amount
Subordinated Class B LP Units	4,095,060	$40,951	4,095,060	$40,951
Non-subordinated Class B LP Units	1,626,384	16,836	1,399,243	13,992
	5,721,444	57,787	5,494,303	54,943
Balance, beginning of period	5,494,303	54,322		54,943
Non-subordinated units issued (note 3)	312,845	3,917		—
Exchanged units (note 7)	(85,704)	(1,073)		
Salary component of Heath acquisition (note 3)		293		
Share of net income for the period		1,855		525
Distributions for the period		(3,462)		(1,146)
Balance, end of period	5,721,444	$55,852		$54,322

Distributions on the Subordinated Class B LP Units will be subordinated in favour of the Fund Units and the Non-subordinated Class B LP Units. These distributions will be 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 has been paid, and any deficiency in such distributions to holders of Units and Non-subordinated Class B LP Units during the subordination period, has been satisfied.

The subordination provisions of the Subordinated Class B LP Units apply until the date on which both of the following conditions have been satisfied: (i) for four consecutive fiscal quarters of the Fund beginning on December 31, 2006, the Fund has earned EBITDA of at least $25,169 during such period; and (ii) commencing with the 12 month period ending September 30, 2007, the Fund and MS Group LP have respectively paid an average distribution of at least $0.06875 per Unit and per Class B LP Unit per month for the preceding 12 month period. "EBITDA" is defined as earnings before interest, income taxes, depreciation and amortization.

9. DISTRIBUTIONS TO UNITHOLDERS

The Board of Trustees determines the amount of distributions. Distributions announced during the nine months ended September 30, 2006 were as follows:

Trust Units

Unitholder record date	Total	Per Unit	Paid or payable
January 31, 2006	$ 1,511	$0.06875	February 15, 2006
February 28, 2006	1,511	0.06875	March 15, 2006
March 31, 2006	1,511	0.06875	April 17, 2006
April 30, 2006	1,511	0.06875	May 15,2006
May 31, 2006	1,511	0.06875	June 15, 2006
June 30, 2006	1,517	0.06875	July 17, 2006
July 31, 2006	1,517	0.06875	August 15, 2006
August 31, 2006	1,517	0.06875	September 15, 2006
September 30, 2006	1,516	0.06875	October 16, 2006
	$13,622		

Class B LP Units

Unitholder record date	Total	Per Unit	Paid or payable
Non-subordinated			
January 31, 2006	$ 96	$0.06875	February 15, 2006
February 28, 2006	96	0.06875	March 15, 2006
March 31, 2006	96	0.06875	April 17, 2006
April 30, 2006	96	0.06875	May 15, 2006
May 31, 2006	96	0.06875	June 15, 2006
June 30, 2006	112	0.06875	July 17, 2006
July 31, 2006	112	0.06875	August 15, 2006
August 31, 2006	112	0.06875	September 15, 2006
September 30, 2006	112	0.06875	October 16, 2006
	$ 928		
Subordinated			
March 31, 2006	$ 845	$0.20625	April 17, 2006
June 30, 2006	845	0.20625	July 17, 2006
September 30, 2006	844	0.20625	October 16, 2006
	$2,534		

10. LONG-TERM INCENTIVE PLAN

Executives are eligible to participate in Morneau Sobeco's Long-Term Incentive Plan (LTIP), which is designed to align compensation with distributable cash earned by the Fund's

subsidiaries. The LTIP provides compensation opportunities for performance resulting in the Fund exceeding its distributable cash targets. The Fund's Compensation, Nominating and Corporate Governance Committee of the Board of Trustees (the "Committee") will determine (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 will set aside a pool of funds based upon the amount, if any, by which the distributable cash per Unit (fully diluted) exceeds certain defined threshold amounts. Morneau Sobeco or a Trustee will purchase Units in the market with this pool of funds and will hold the Units until such time as ownership vests to each participant. Generally, one-third of these Units will vest equally over the three years following the grant of the awards. LTIP participants will be entitled to receive distributions on all Units held for their account prior to the applicable vesting date. Unvested Units held by the 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.

Initially, the LTIP provides for awards that may be earned based on the amount by which distributable cash per Unit exceeds a base distribution threshold of $0.825 per Unit per annum. The percentage amount of that excess, which forms the LTIP incentive pool, will be determined in accordance with the table below:

Percentage by which Distributable Cash per Unit Exceeds Base Threshold[(1)]	Maximum Proportion of Excess Distributable Cash Available for LTIP Payments
5% or less	10%
over 5% to 10%	15% of any excess over 5% to 10%
greater than 10%	20% of any excess over 10%

(1) Annualized for fiscal periods of less than 12 months.

The base distribution threshold will be subject to review by the Committee at least annually. The Committee decided that the initial LTIP awards will be determined following the completion of the first complete fiscal year to December 31, 2006. At that time, the Committee will consider performance

for the past fifteen months in order to determine an allocation for the LTIP.

11. INCOME TAXES

Income tax obligations relating to distributions from the Fund are obligations of the unitholders and, accordingly, no provision for income taxes has been made in respect of income of the Fund. A provision for income taxes is recognized for the Fund's subsidiaries that are subject to tax, including Large Corporations Tax.

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, 2006	Nine months ended September 30, 2006
Income taxes at statutory rates:		
Federal	22.12%	22.12%
Provincial	12.13%	12.13%
	34.25%	34.25%
Income tax provision applied to earnings before income taxes:		
Combined basic federal and provincial income taxes at statutory rates applied to earnings from continuing operations	$ 696	$ 3,130
Earnings taxed in the hands of the unitholders	(1,549)	(5,631)
Non-deductible expenses	28	93
Non-deductible intangible asset amortization	995	3,147
Financing cost deductible for tax purposes	(244)	(761)
Effect of higher tax rates in non-Canadian jurisdictions	28	33
Non-capital loss carried forward	—	—
Other	(19)	(38)
	$ (65)	$ (27)

Future income tax assets and liabilities are provided for temporary differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. The significant components of future income taxes and liabilities related to continuing operations are as follows:

	September 30, 2006	December 31, 2005
Future income tax assets:		
Excess of tax bases of capital assets and intangibles over their carrying values	$875	$589
Non-capital losses	—	11
Net future income tax asset	$875	$600

12. EMPLOYEE FUTURE BENEFITS

The Fund has a pension benefit plan covering 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.

As of January 1, 1998, all new members participate in a defined contribution option, whereby the Fund matches member contributions and may be required to make additional contributions at the option of the members up to a limit prescribed under the *Income Tax Act (Canada)*. 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.

Information about the pension plan's defined benefit option is as follows:

	September 30, 2006	December 31, 2005
Fair value of plan assets	$2,393	$2,954
Accrued benefit obligation	3,232	3,896
Funded status – deficit	$ (839)	$ (942)
Plan assets:		
Fair value, beginning of period	2,954	
Actual return on plan assets	76	
Employer contributions	221	
Benefits paid	(858)	
Fair value, end of period	$2,393	
Accrued benefit obligation:		
Balance, beginning of period	3,896	
Current service cost	68	
Interest cost	126	
Benefits paid	(858)	
Actuarial losses/(gains)	—	
Balance, end of period	$3,232	
Reconciliation of plan assets to accrued benefit obligation, end of period:		
Plan assets at fair value	$2,393	$2,954
Accrued benefit obligation	3,232	3,896
Funding status – plan deficit	(839)	(942)
Unamortized net actuarial loss	370	410
Unamortized transitional obligation	471	539
Accrued benefit asset:	$ 2	$ 7
End of period allocation of fair value of plan assets (%)		
Pooled balanced fund (60% equities, 40% bonds)	90%	90%
Pooled bond fund	10%	10%
	100%	100%

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Pension plan cost		
Current service cost	$ 23	$ 68
Interest cost on accrued benefit obligation	43	126
Return on plan assets	(79)	(76)
Actuarial losses/(gains) during the period on accrued benefit obligation	231	—
	$ 218	$118
Other adjustments:		
Difference between actual and expected return on plan assets	33	(60)
Amortization of Actuarial losses/(gains)	(230)	100
Transitional amounts	23	68
Net pension plan expense	$ 44	$226

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

Employer contributions	$ 39	$221
Benefits paid	7	858

The net expense for the period of three and nine months ended September 30, 2006 for Fund's defined benefit option is $39 and $221 respectively and for defined contribution option is $415 and $1,191 respectively.

Actuarial valuations:

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, 2003.

Weighted average assumptions:

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	4.75%
Discount rate at the end of preceding period used to determine the benefit cost	4.75%
Rate of compensation increase used to determine the accrued benefit obligation	2.50%
Rate of compensation increase used to determine the benefit cost	2.50%
Expected long-term rate of return on plan assets	7.00%

13. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal, as at September 30, 2006 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 or period ending December 31:

2006	$ 1,207
2007	4,657
2008	4,335
2009	3,711
2010	3,101
Thereafter	5,986
Total	$22,997

14. 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.

15. ECONOMIC DEPENDENCE

The Fund's largest client for the three and nine months ended September 30, 2006, accounted for approximately 12% of revenue and its top 10 clients, in the aggregate, accounted for approximately 34% of revenue for the three and nine months

ended September 30, 2006. As clients may terminate engagements on minimal notice, there can be no assurance that the Fund will be able to retain its relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use the services of the Fund in the future. Any negative change involving any of the Fund's largest clients, including but not limited to a client's financial condition or desire to continue using the Fund's services, could result in a significant reduction in business, which could have a material adverse effect on the Fund's business, results of operations and financial condition and the ability of the Fund to make distributions on the Units.

16. SEGMENTED INFORMATION

The Fund's operations consist of one reporting segment, which provides employee pension and benefits consulting and outsourcing services. Geographic data are as follows:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Revenue		
Canada	$31,113	$93,072
United States	1,924	4,936

Assets held in Canada & United States mainly consist of cash, accounts receivable, prepaid expenses, income tax recoverable, capital assets, intangibles and goodwill, and liabilities includes accounts payable, accrued compensation, income tax payable, unitholder distributions, long-term debt and non-controlling interest had a book value as follows:

	September 30, 2006	December 31, 2005
Assets		
Canada	$297,461	$301,756
United States	2,262	1,962
Liabilities		
Canada	$102,622	$101,401
United States	347	325

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morneau Sobeco Income Fund (the "Fund") was formed on August 22, 2005 and commenced operations on September 30, 2005 when it completed an initial public offering ("IPO"). Using the proceeds from the IPO, the Fund indirectly acquired a controlling interest in Morneau Sobeco Group Limited Partnership ("MS Group LP"), which in turn acquired Morneau Sobeco Corporation ("Morneau Sobeco"), the successor to W.F. Morneau Services, Inc. ("WFMS").

This Management's Discussion and Analysis ("MD&A") covers the period ending September 30, 2006 and should be read in conjunction with the accompanying unaudited consolidated financial statements of the Fund and notes thereto for the three and nine months ended September 30, 2006 and the audited financial statements and notes thereto and MD&A contained in the Fund's Annual Report for the year ended December 31, 2005. Since the Fund formed on August 22, 2005, no comparative information is provided in the Fund's unaudited consolidated statement of income and deficit and unaudited consolidated statement of cash flows. In order to provide meaningful information to the user, this MD&A includes financial data of WFMS, which carried on the Morneau Sobeco business prior to September 30, 2005. WFMS data is used to provide operating data for the period ended September 30, 2005 for comparison to the period ended September 30, 2006.

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 (which are 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.

This discussion also makes reference to certain non-GAAP measures such as EBITDA, Adjusted EBITDA, Distributable Cash and Payout Ratio to assist investors in assessing the Fund's financial performance (see footnotes to the "Results of Operations" chart). 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.

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 22,062,916 Class A Limited Partnership units of MS Group LP, which represents a 79.4% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 20.6% 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 provided that the Fund achieves certain objectives. Management employees and former owners of the predecessors of the Morneau Sobeco Operating Entities hold this non-controlling interest.

As at September 30, 2006, 22,062,916 Units and 5,721,444 Special Voting Units of the Fund were issued and outstanding, and 5,721,444 MS Group LP Units were issued and outstanding.

BUSINESS OVERVIEW

Morneau Sobeco is the largest Canadian-owned pension and benefits consulting and outsourcing firm, providing services to organizations across Canada and in the United States. We focus on the integrated design and delivery of retirement, employee compensation and benefit programs. We have over 1,000 professionals and support staff with offices in 12 cities across North America. Our clients are primarily large and medium-sized organizations in Canada and the United States, which typically utilize our services on a recurring or contracted basis over a long term.

We derive our revenue primarily from fees charged to clients for pension and benefits consulting and outsourcing engagements. 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 benefit 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. 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 usually have three 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.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits (e.g., pension, health, dental), payroll taxes and temporary staffing services. For the comparable operating results of WFMS contained in this MD&A, compensation

expense also includes distributions paid as bonuses to employee-shareholders. Other 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.

OVERVIEW AND OUTLOOK

In the third quarter we met our expectations, from both a revenue and profitability standpoint. In addition, the impact of our recent acquisition of Heath Benefits Consulting Inc. ("Heath") minimized the usual seasonal impact of employee vacations on the quarter. Revenue growth was 14% and EBITDA margin was 21.3%.

As a result of adopting the CSA Staff Notice 52-306 (Revised) we changed our calculation of Payout Ratio to include changes in non-cash operating working capital which has resulted in a Payout Ratio of 52.1% for the quarter, 83.1% for the nine months ended September 30, 2006 and 85.2% for the twelve months since becoming an income fund. Under the previous calculation method, the Payout Ratios would have been 88.7%, 85.9% and 86.3% for the respective periods.

We believe 2006 will be a solid year for Morneau Sobeco. We continue to execute our business strategy which includes focusing on our core services and striving to deliver high quality services in the most efficient and cost effective manner. Our strategy for future growth encompasses expanding relationships with current clients, continuing to attract new clients especially in the growing outsourcing market, targeting underserved markets and pursuing selected acquisitions.

On June 1, 2006, the Fund indirectly acquired all of the issued and outstanding shares of Heath through its subsidiary MS Group LP. Heath was a Vancouver-based benefits consulting firm with over 90 employees across Canada. The integration of Heath is proceeding according to plan.

The consideration is based on future revenue from the Heath business going forward as well as achieving targeted cost efficiencies. The consideration, which is currently estimated to be approximately $15.4 million is being paid in three instalments and is satisfied primarily through the assumption and repayment of the Heath debt of $4.6 million and the issuance of Class B LP Units. The first instalment of the

purchase price was made on closing. The second and third instalments plus an amount to compensate for foregone distributions payable will be settled on June and December of 2008 and will be recorded at that time except for a portion of the instalment 3 which is conditional on the continuing employment of certain selling shareholders and is being recorded as salary expenses over the required employment period to December, 2008.

The salary component of the Heath acquisition recorded for this quarter was $0.3 million. Eliminating the effects of this, resulted in an EBITDA margin of 22.2% for the three months ended September 30, 2006. In addition, the payout ratio under the previous method for the three months, nine months and twelve months ended September 30, 2006 would have been 84.8%, 85.2% and 85.8% respectively, prior to the recording of the salary component of the Heath acquisition.

ANALYSIS OF 2006 THIRD QUARTER OPERATING RESULTS

Results of Operations

Selected Unaudited Consolidated Financial Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
	(In thousands of dollars except per unit amounts)			
Revenue	$ 33,037	$28,987	$ 98,008	$ 90,252
Deduct :				
Salaries and benefits expense	19,864	24,542	57,499	64,092
Other operating expense	6,120	6,365	18,557	17,258
Interest	643	86	412	185
Amortization	4,211	626	12,401	1,896
Partnership distributions	—	—	—	6,825
Income taxes expenses (recovery)	(65)	(651)	(27)	459
Non-controlling interest	466	—	1,855	—
Net income (loss) for the period	1,798	(1,981)	7,311	(463)
Add:				
Amortization	4,211	626	12,401	1,896
Taxes	(65)	(651)	(27)	459
Interest	643	86	412	185
Non-controlling interest	466	—	1,855	—
EBITDA[1]	7,053	(1,920)	21,952	2,077
Adjustments:				
Executive compensation and employee-shareholder and partner distributions adjustments[2]	—	6,739	—	16,703
Adjusted EBITDA[3]	7,053	4,819	21,952	18,780
Adjusted EBITDA Margin	*21.3%*	*16.6%*	*22.4%*	*20.8%*
EBITDA[1]	7,053	(1,920)	21,952	2,077
Add :				
Change in non-cash operating working capital	4,252	5,598	468	(4,421)
Current taxes	(15)	269	(248)	(1,295)
Salary component of Heath acquisition	293	—	293	—
Fair value of interest rate swap agreement	203		(910)	
Interest expenses	(643)	(86)	(412)	(185)
Cash from operating activities	11,143	3,861	21,143	(3,824)
Deduct:				
Change in employee-shareholder distributions and one-time bonuses paid[2]	—	(2,948)	—	(17,663)
Cash from adjusted operating activities	11,143	6,809	21,143	13,839
Deduct:				
Capital expenditures[4]	155	—	525	473
Total Distributable Cash[5]	$ 10,988	$ 6,809	$ 20,618	$ 13,366
Distributable Cash available to non-controlling interest	2,259	n/a	4,202	n/a
Distributable Cash available for Unitholders	8,729	n/a	16,416	n/a
Net income per Unit (basic and diluted)	0.08148	n/a	0.33204	n/a
Distributable Cash per Unit (basic and diluted)	0.39559	n/a	0.74483	n/a
Distributions declared per Unit (basic and diluted)	0.20625	n/a	0.61877	n/a
Payout Ratio[6]	52.1%	n/a	83.1%	n/a
Twelve month rolling Payout Ratio	85.2%	n/a	85.2%	n/a

Notes:

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

(2) Represents the difference between historical executive compensation (including employee-shareholder and partner distributions) and compensation arrangements in place since the acquisition of Morneau Sobeco by the Fund.

(3) "Adjusted EBITDA" is EBITDA adjusted for items that were applicable prior to the acquisition of Morneau Sobeco by the Fund in order to make historical comparisons more meaningful.

(4) Non-maintenance capital expenditures are not shown as a reduction from Distributable Cash for the periods prior to September 30, 2005 since these expenditures are considered non-recurring. The amounts shown for periods prior to September 30, 2005 reflect estimated capital expenditure requirements as a public company of $600,000 per year.

(5) "Distributable Cash" is defined as Cash from operating activities adjusted for maintenance capital expenditures. In the comparable data for the periods prior to September 30, 2005, Distributable Cash has also been adjusted for items that were applicable prior to the acquisition of Morneau Sobeco by the Fund in order to make historical comparisons more meaningful.

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

Non-GAAP Financial Measures: EBITDA, Adjusted EBITDA, Distributable Cash and 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. Adjusted EBITDA is a useful measure in evaluating the performance for comparison purposes with prior periods as certain previous arrangements are non-recurring and will differ materially from ongoing arrangements as a public entity. We also believe that Distributable Cash and 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.

In order to make historical data of WFMS more comparable to the ongoing performance data of the Fund, we have made the following two adjustments to EBITDA and to Distributable Cash:

(i) As a private company, WFMS historically paid out substantial amounts of pre-tax income as distributions to its shareholders and partners each year. Distributions to employee-shareholders were reflected as salary expenses. Distributions to partners were reflected as partnership earnings. Since the practice of paying such distributions has been discontinued effective September 30, 2005, we believe that an adjustment to historical EBITDA to account for such distributions should be made to arrive at an adjusted amount of EBITDA.

(ii) As the new executive compensation arrangements effective October 1, 2005 differ materially from the previous arrangements, we believe that adjustments relating to the new executive compensation arrangements are a more useful reflection of the results of operations of WFMS. To provide consistency, adjustments have been made to executive compensation arrangements as if the new compensation arrangements had been in place for all of 2005.

The above financial measures in this MD&A do not have a standardized meaning prescribed by Canadian GAAP. These non-GAAP measures may not be comparable to similar measures presented by other entities. For a reconciliation with comparable GAAP measures, see the “Results of Operations” chart.

As a result of adopting the CSA Staff Notice 52-306 (Revised), the Distributable Cash calculation in this MD&A has been revised from previous MD&A's to incorporate the changes in non-cash operating working capital. This change enables the Distributable Cash to reconcile back to the Cash from operating activities which is a GAAP measure. Had the Distributable Cash calculation remained the same as in the previous MD&A's, the total Distributable Cash for the three and nine months ended September 30, 2006 would have been $6,460 and $19,873 respectively.

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.

To reduce Unitholder risk, approximately 72% of the Class B LP Units are subordinated in their rights to distributions until Unitholders of the Fund receive their target distributions. This subordination is in place until September 30, 2007, or later if the Fund has not made its target distributions or met specified EBITDA targets.

ANALYSIS OF 2006 THIRD QUARTER RESULTS

Revenue

Revenue for the three months ended September 30, 2006 increased by $4.1 million, or 14%, to $33.0 million compared to $29.0 million for the same period in 2005. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients, with one existing client increasing our revenue by $0.6 million. Revenue also increased due to the Heath acquisition by $2.8 million. The increase in revenue was partially offset by a $0.3 million reduction in outsourcing fees related to one contract in the U.S. which ended in late 2005.

Salaries and Benefits

Salaries and benefits for the three months ended September 30, 2006 decreased by $4.7 million, or 19.1%, to $19.9 million compared to $24.5 million for the same period in 2005. The decrease was attributable to the elimination of employee-shareholder distributions and reduced executive compensation of $7.2 million partially offset by salary increases of $0.8 million or 4.7% and salary and benefits of $1.4 million for Heath and the salary component of the Heath acquisition of $0.3 million.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2006 decreased by $0.2 million, or 3.8%, to $6.1 million compared to $6.4 million for the same period in 2005. The decrease is primarily attributable to decreases in discretionary expenses consisting of travel, client promotions, indirect personnel costs and donations of $0.5 million and a reduction in foreign exchange loss of $0.3 million. This is partially offset by Heath operating costs of $0.4 million and increased audit and legal fees of $0.2 million.

Interest Expense

Interest expense for the three months ended September 30, 2006 increased by $0.6 million. This was due to $0.4 million in interest charges as a result of the $35 million of debt restructuring in connection with the change in ownership of the business on September 30, 2005 to the formation of the Fund, $0.05 million in interest charges on the $5.1 million incremental debt for 60 days related to the acquisition of Heath on June 1, 2006 and $0.2 million due to the recognition of the fair value of our debt. This compares to interest charges of $0.1 million on an average debt of $7.9 million for the three months ended September 30, 2005.

Amortization

Amortization for the three months ended September 30, 2006 increased by $3.6 million, or 573%, to $4.2 million compared to $0.6 million for the same period in 2005. The increase was attributable to the increase in intangible assets as a result of the purchase of WFMS by the Fund and acquisition of Heath on June 1, 2006.

Income Tax Expense (Recovery)

Income tax recovery for the three months ended September 30, 2006 decreased by $0.6 million to $0.1 million compared to $0.7 million for the same period in 2005. The changes in income tax recovery are primarily attributable to changes in partner and trust distributions.

Net Income (Loss)

As a result of the changes in revenue and expenses described above, net income for the three months ended September 30, 2006 increased by $3.8 million to $1.8 million compared to net loss of $2.0 million for the same period in 2005.

Changes in Non-cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended September 30, 2006 decreased by $1.3 million to $4.3 million compared to $5.6 million for the same period in 2005. The decrease was primarily attributable to decreased payables of $3.5 million as 2005 related to IPO payables. This was partially offset by improved collection of receivables net of unbilled fees of $2.2 million.

Cash from Adjusted Operating Activities

Cash from operating activities for the three months ended September 30, 2006 increased by $4.3 million to $11.1 million compared to cash from adjusted operating activities of $6.8 million for the same period in 2005. This increase was primarily due to improved adjusted EBITDA of $2.6 million plus an increase in changes in non-cash operating working capital of $1.7 million which has been adjusted to take into account the changes in employee-shareholder distributions and one-time bonuses paid in 2005.

Non-GAAP Financial Measures: Adjusted EBITDA and Distributable Cash

Adjusted EBITDA

Adjusted EBITDA increased $2.2 million, or 46.4%, to $7.0 million for the three months ended September 30, 2006 compared to $4.8 million for the same period in 2005. The increase is due to increased revenue of $4.0 million partially offset by increased operating costs of $1.5 million and the salary component of the Heath acquisition of $0.3 million.

Total Distributable Cash

Total Distributable Cash increased by $4.2 million, or 61.4% to $11.0 million for the three months ended September 30, 2006 relative to $6.8 million for the same period in 2005. This increase is primarily due to improved cash from adjusted operating activities of $4.3 million offset by higher capital expenditures of $0.1 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 RESULTS

Revenue

Revenue for the nine months ended September 30, 2006 increased by $7.8 million, or 8.6%, to $98.0 million compared to $90.3 million for the same period in 2005. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients, with one existing client increasing our revenue by $2.7 million and a new client contributing $1.1 million. Revenue also increased due to the Heath acquisition by $3.4 million. The increase in revenue was partially offset by reduced outsourcing fees of $0.7 million for one large client due to a special project being completed in 2005, reduced volumes and special projects for another large outsourcing client of $1.1 million, and a $2.2 million reduction in outsourcing fees related to two contracts in the U.S. which ended in 2005.

Salaries and Benefits

Salaries and benefits for the nine months ended September 30, 2006 decreased by $6.6 million, or 10.3%, to $57.5 million compared to $64.1 million for the same period in 2005. The decrease was attributable to the elimination of employee-shareholder distributions and reduced executive compensation of $11.2 million partially offset by salary increases of $2.4 million or 4.6% and salary and benefits of $1.9 million for Heath and the salary component of the Heath acquisition of $0.3 million.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2006 increased by $1.3 million, or 7.5%, to $18.6 million compared to $17.3 million for the same period in 2005. The increase is primarily attributable to Heath operating expenses of $0.6 million, increased technology spending of $0.2 million, increased legal and public company costs of $0.4 million and increased outsourcing audit fees of $0.2 million.

Interest Expense

Interest expense for the nine months ended September 30, 2006 increased by $0.2 million due to $1.2 million in interest charges as a result of the $35 million of debt restructuring in connection with the change in ownership of the business on

September 30, 2005 to the formation of the Fund, $0.1 million of interest on the $5.1 million incremental debt for 90 days related to the acquisition of Heath on June 1, 2006 and the recognition of the fair value of our debt of $0.2 million. This compares to interest charges of $0.1 million on an average debt of $5.7 million for the nine months ended September 30, 2005.

Amortization

Amortization for the nine months ended September 30, 2006 increased by $10.5 million, or 554%, to $12.4 million compared to $1.9 million for the same period in 2005. The increase was attributable to the increase in intangible assets as a result of the purchase of WFMS by the Fund and acquisition of Heath on June 1, 2006.

Partnership Distributions

Distributions from WFMS's limited partnership subsidiary for the nine months ended September 30, 2006 was $nil compared to $6.8 million for the same period in 2005.

Income Tax Expense (Recovery)

Income tax expenses for the nine months ended September 30, 2006 decreased by $0.5 million when compared to the same period in 2005. The changes in tax expense are primarily attributable to changes in partner and trust distributions.

Net Income (Loss)

As a result of the changes in revenue and expenses described above, net income for the nine months ended September 30, 2006 increased by $7.8 million to $7.3 million compared to net loss of $0.5 million for the same period in 2005.

Changes in Non-cash Operating Working Capital

Changes in non-cash operating working capital for the nine months ended September 30, 2006 increased by $4.9 million to $0.5 million compared to a reduction of $4.4 million for the same period in 2005. The increase was attributable to improved collection of receivables, net of unbilled fees of $2.0 million and employee-shareholder distributions paid in 2005 of $5.7 million. This was partially offset by decreased payables of $2.6 million as 2005 related to IPO payables and increased in prepaid software licenses of $0.2 million.

Cash from Adjusted Operating Activities

Cash from operating activities for the nine months ended September 30, 2006 increased by $7.3 million to $21.1 million compared to cash from adjusted operating activities of $13.8 million for the same period in 2005. This increase was primarily due to improved adjusted EBITDA of $3.5 million plus an increase in non-cash operating working capital of $3.8 million which has been adjusted to take into account changes in employee-shareholder distributions and one-time bonuses paid in 2005.

Non-GAAP Financial Measures: Adjusted EBITDA and Distributable Cash

Adjusted EBITDA

Adjusted EBITDA increased $3.2 million, or 16.9%, to $22.0 million for the nine months ended September 30, 2006 compared to $18.8 million for the same period in 2005. The increase is due to increased revenue of $7.8 million partially offset by increased operating costs of $4.3 million and the salary component of the Heath acquisition of $0.3 million.

Total Distributable Cash

Total Distributable Cash increased by $7.3 million, or 54.2% to $20.6 million for the nine months ended September 30, 2006 relative to $13.4 million for the same period in 2005. This increase is primarily due to increased adjusted cash from operating activities of $7.3 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	
	2006	2005	2006	2005
	(In thousands of dollars)			
Operating Activities	$ 11,143	$ 3,861	$ 21,143	$ (3,824)
Less employee-shareholder distributions and one-time bonuses	—	(2,948)	—	(17,663)
Adjusted Operating Activities	11,143	6,809	21,143	13,839
Investing Activities	(155)	(211,884)	(6,531)	(212,316)
Financing Activities	(10,832)	214,857	(17,052)	218,357
Less partner distributions	—	—	—	(2,500)
Adjusted Financing Activities	(10,832)	214,857	(17,052)	220,857
Increase (decrease) in cash before employee-shareholder and partner distributions and one-time bonuses	156	9,782	(2,440)	22,380
Employee-shareholder and partner distributions and one-time bonuses[1]	—	(2,948)	—	(20,163)
Increase (decrease) in cash after employee-shareholder and partner distributions and one-time bonuses	$ 156	$ 6,834	$ (2,440)	$ 2,217

(1) Represents the sum of the aggregate employee-shareholder and partner distributions and one-time bonuses deducted from Operating Activities and Financing Activities.

2006 Third Quarter Results

Cash inflows from adjusted operating activities increased by $4.3 million, or 63.6% to $11.1 million for the three months ended September 30, 2006 from $6.8 million for the same period in 2005. This increase was primarily due to improved adjusted EBITDA of $2.6 million and an increase in changes in adjusted non-cash operating working capital of $1.7 million after taking into account changes in employee-shareholder distributions and one-time bonuses paid in 2005.

Cash outflow from investing activities decreased by $211.8 million to $0.2 million for the three months ended September 30, 2006 from $211.9 million for the same period in 2005. This decrease was due to lower capital expenditures of $0.8 million, the purchase of WFMS for $209.8 million on September 30, 2005 and the payment of $1.2 million of dividends in the same period of 2005.

Cash outflows from adjusted financing activities was $10.8 million for the three months ended September 30, 2006 compared to cash inflows of $214.9 million for the same period in 2005. The cash outflows in 2006 consisted of Unitholder distribution payments of $5.7 million and the re-payment of the operating line of credit of $5.1 million. Cash inflows in 2005 consisted of proceeds of the IPO of $199.8 million less costs of $14.9 million, $25 million in additional term loans and $5.0 million in temporary line of credit required to facilitate cash transfers at the IPO closing.

Nine Months Ended September 30, 2006 and 2005 Results

Cash inflows from adjusted operating activities increased by $7.3 million, or 52.8%, to $21.1 million for the nine months ended September 30, 2006 from $13.8 million for the same period in 2005. This increase was primarily due to improved adjusted EBITDA of $3.5 million plus an increase in adjusted non-cash operating working capital of $3.8 million after taking into account change in employee-shareholder distributions and one-time bonuses paid in 2005.

Cash outflows from investing activities decreased by $205.8 million to $6.5 million for the nine months ended September 30, 2006 from $212.3 million for the same period in 2005. This decrease was due to lower capital expenditures of $0.9 million, the purchase of WFMS for $209.8 million on September 30, 2005 and the payment of $1.2 million of dividends in the same period of 2005. This was partially offset by the purchase of Heath on June 1, 2006 for $6.1 million.

Cash outflows from adjusted financing activities was $17.1 million for the nine months ended September 30, 2006 compared to cash inflows of $220.8 million for the same period in 2005. The cash outflows in 2006 consisted of Unitholder distribution payments of $17.1 million. Cash inflows in 2005 consisted of proceeds of the IPO of $199.8 million less costs of $14.9 million, $31.0 million in additional term loans and $5.0 million in temporary line of credit require to facilitate the cash transfers at the IPO closing.

Capital Expenditures

Pension and benefits consulting and outsourcing is not a capital intensive business. Historically, capital expenditures have included office furniture, facility improvements, and information technology software and hardware. Over the two-year period ended December 31, 2005, we undertook non-recurring capital expenditures relating to buildings, office furniture, facility improvements and information technology software totaling $2.7 million. Going forward, we expect that the capital expenditures required to maintain our current platform will be significantly lower, principally related to information technology hardware and telecommunications equipment, which over the last three fiscal years have averaged less than $450,000 per year. Additional capital expenditure requirements may result from significant business expansion. Such amounts are expected to be funded from our operating cash flow.

Contractual Obligations

We lease office space and selected equipment under operating lease agreements with terms ranging from one to nine years. We also have a term loan described under "Capital Resources". Future expected payments are as follows:

Summary of Contractual Obligations
Selected Unaudited Consolidated Financial Information

	Total	2006 to 2008	2009 to 2010	Beyond 2010
	(In thousands of dollars)			
Term Loan	$35,000	$ —	$35,000	$ —
Revolving Loan	—	—	—	—
Operating Leases	22,997	10,199	6,812	5,986
Total	$57,997	$10,180	$41,812	$5,986

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

We have historically utilized cash from operations to finance working capital requirements and fund growth. As at September 30, 2006, the Fund's working capital (current assets minus current liabilities) was approximately $19.2 million. Liabilities consist mainly of accounts payable and accrued

liabilities of $4.1 million, accrued compensation and related benefits of $5.3 million, Unitholder distributions payable of $2.5 million and income tax payable of $0.3 million.

We have also maintained credit facilities to manage working capital requirements throughout the year. The Fund's credit facilities include a term loan of $35 million repayable in full on September 30, 2009. The term loan bears interest at bankers' acceptance rates plus 1%, which have been fixed at 4.4% using an interest-rate swap. The credit facilities also include a secured operating line of credit of up to $15 million bearing interest at bankers' acceptance rates plus 1% and a stand-by fee of 0.2% on the undrawn portion.

As at September 30, 2006, the operating line was undrawn and the Fund had excess cash of $1.9 million.

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

Capital Resources

Selected Unaudited Consolidated Financial Information

	As at September 30, 2006	As at December 31, 2005
	(In thousands of dollars)	
Cash	$ 1,908	$ 4,348
Long-term debt	35,000	35,000
Working capital	19,172	21,454
Unitholders' equity	196,754	201,992

SELECTED BALANCE SHEET DATA

The balance sheet is not comparable to periods prior to the IPO because, at the time of the IPO, financing was restructured and long-term assets were revalued to market value. Total assets at September 30, 2006 were $299.7 million.

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 and 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:

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. 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, included with accounts payable and accrued liabilities, until services are rendered. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third-party professional services. Reimbursements are accounted for as a reduction to expenses.

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

Amortization of Finite-life Intangible Assets

We have accounted for our acquisition of WFMS and Heath using the purchase method of accounting. Intangible assets consisting principally of customer relationships, proprietary software and customer contracts have been recognized on acquisition based on our best estimate of the relative fair values. These finite-life intangible assets are being amortized over their estimated useful lives of fifteen to twenty, five and three years respectively. Impairment is assessed annually, or when events or changes in circumstances indicate the carrying amount of assets may not be recoverable.

Goodwill is not amortized and is subject to an impairment test at least annually or when it is more likely than not that the

carrying amount of the Fund's net assets exceeds its fair value. Goodwill impairment is assessed based on a comparison of the fair value of the Fund and its net assets including goodwill.

Allowance for Doubtful Accounts

A provision for accounts receivable resulting from the potential risk that the 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 claims 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 Tax

We use the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that we determine it is more likely than not that the future income tax assets will be realized. Prior to the legal restructuring of the Morneau Sobeco business in connection with the IPO, income taxes recoverable related to a tax credit for "e-commerce" activities which is no longer available.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Fund's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, Unitholder distributions payable, interest-rate swaps and a term loan.

We have a term loan of $35 million with two Canadian chartered banks repayable on September 30, 2009. We have entered into interest-rate swap agreements to fix the interest rate at 4.4% for the 4-year term. We also have available a secured operating line of credit for $15 million. The line of credit bears interest at the bankers' acceptance rate plus 1% and the undrawn portion incurs a standby fee of 0.20%.

The carrying value of the financial instruments approximates their fair values due to their short-term nature with the exception of the interest-rate swap agreements in place on the

term loan, which have been recorded at the current market rate.

We are not engaged in currency hedging activities and do not own other instruments that may be settled by the delivery of non-financial assets. We realize a portion of our sales in U.S. dollars and are thus 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 was approximately US$1.0 million for the three months ended September 30, 2006 and US$2.2 million for the nine months ended September 30, 2006.

In our view, the Fund is not exposed to significant interest, currency or credit risks arising from financial instruments.

RISKS AND UNCERTAINTIES

The result 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.

Income Tax Matters

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence 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. The announcement suggested that this grandfathering could be lost in certain circumstances, including where the trust undergoes an undue expansion through the insertion of a disproportionately large amount of additional capital. The Fund is considering this announcement and the possible impact of the proposed rules to the Fund. At such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be reduced and such reduction may be material.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that we will be able to sustain profitability in future periods. Our future operating results will

depend on a number of factors, including our ability to continue to execute our strategy successfully.

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

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

Reliance on Information Systems and Technology

Information systems are an integral part of our business and the products and services offered to our clients. We rely on systems to maintain accurate records and to carry out required administrative functions in accordance with the terms of our contractual obligations to our clients. We rely on the Internet as a key mechanism for delivering our services to our clients and achieving efficiencies in our service model. Any disruptions in our systems, the failure of our systems to operate as expected or our ability to use the Internet effectively to deliver our services could, depending on the magnitude of the problem, result in a loss of current or future business and/or potential claims against the Fund, all of which could materially adversely affect our business, financial condition and results of operations and the ability of the Fund to make distributions on the Units.

Reputational Risk

We depend to a large extent on our relationships with our clients and our reputation for high-quality outsourcing and consulting services. As a result, if a client is not satisfied with our services or products, it may be more damaging to our business than to other businesses. Moreover, if we fail to meet our contractual obligations, we could be subject to legal liability or loss of client relationships.

Dependence on Key Clients

For the three and nine months ended September 30, 2006, our largest client accounted for approximately 12% of revenue. Our

top 10 clients, in the aggregate, accounted for approximately 34% of revenue for the three months and nine months ended September 30, 2006. As clients may terminate engagements with minimal notice, there can be no assurance that we will be able to retain our relationships with our largest clients. Moreover, there can be no assurance that such clients will continue to use our services in the future. Any negative change involving any of our largest clients, including but not limited to a client's financial condition or desire to continue using our services, could result in a significant reduction in revenue, which could have a material adverse effect on our business, results of operations and financial condition and the ability of the Fund to make distributions on the Units.

Risk of Future Legal Proceedings

We 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 our business, including lawsuits based upon professional errors and omissions. The nature of our business involves assumptions and estimates concerning future events, the actual outcome of which we cannot know with certainty in advance. In addition, we could make computational, software programming or data management errors. Our exposure to liability on a particular project may be greater than the profit opportunity of the project. For example, possible claims may include, without limitation: (i) a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding; (ii) a claim arising out of the use of inaccurate data, which could lead to an underestimation of plan liabilities; and (iii) a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, leading to overpayments to beneficiaries. Defending lawsuits of this nature or arising out of any of the services that we provide could require substantial amounts of management attention, which could divert their focus from operations and could materially adversely affect our financial condition. Any such claims may produce negative publicity that could hurt our reputation and business. A significant judgment against us or the imposition of a significant fine or penalty as a result of a finding that we failed to comply with laws or regulations could have a significant adverse impact on our business, financial condition and results of operations and the ability of the Fund to make distributions on the Units.

Reliance on Key Professionals

Our operations are dependent on the abilities, experience and efforts of our professionals, many of whom have significant reputations and contacts in the industry in which we operate. Our business depends, in part, on our professionals' ability to develop and maintain alliances with businesses such as brokerage firms, financial services companies, health care organizations, insurance companies, business process outsourcing organizations and other companies in order to develop, market and deliver our services. If our strategic alliances are discontinued, due to the loss of professional staff or otherwise, or if we have difficulty developing new alliances, profitability could be negatively impacted. Should any members of our professional staff be unable or unwilling to continue their relationship with us, our business, financial condition and operating results and the ability of the Fund to make distributions on the Units could be materially adversely impacted.

Competition

We operate in a highly competitive North American market in our service areas. As a result, we compete with many domestic and international firms. Some of our competitors have achieved substantially more market penetration in certain of the areas in which we compete. In addition, some of our competitors have substantially more financial resources and/or financial flexibility than us. These competitive forces could have a material adverse effect on our business, financial condition and results of operations and the ability of the Fund to make distributions on the Units by reducing our current market share in the area we serve.

Further details are provided in the "Risk Factors" section of the Annual Information Form available on the SEDAR Web site (*www.sedar.com*).

SUPPLEMENTAL SUMMARY OF QUARTERLY RESULTS

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

Operating Results, Distribution and Condensed Balance Sheet

Selected Unaudited Consolidated Financial Information

	Three Months Ended September 30 2006	Three Months Ended June 30 2006	Three Months Ended March 31 2006	Three Months Ended December 31 2005
	(in thousand dollars except per unit amounts)			
Revenue	$ 33,037	$ 32,793	$ 32,178	$ 30,071
Net Income	1,798	3,355	2,158	2,099
EBITDA	7,053	7,672	7,228	7,146
EBITDA Margin	21.3%	23.4%	22.5%	23.8%
Distributable cash[(1)]	10,988	9,021	608	6,223
Distributions declared	5,731	5,688	5,666	5,729
Net income per Unit (basic and diluted)	$0.08148	$0.15245	$0.09821	$0.09553
Distributable Cash per Unit (basic and diluted)	$0.39559	$0.32712	$0.02212	$0.22653
Distributions declared per Unit (basic and diluted)	$0.20625	$0.20627	$0.20625	$0.20854
Payout Ratio[(1)]	52.1%	63%	932%	92%
Twelve month rolling Payout Ratio	85.2%			
Total Assets	$299,723	$307,188	$297,753	$303,718
Total Long-term debt	$ 35,000	$ 35,000	$ 35,000	$ 35,000

(1) Distributable Cash has been restated for the quarters ended December 31, 2005, March 31, 2006 and June 30, 2006 to include changes in non-cash operating working capital. The Distributable Cash for the three months ended March 31, 2006 is significantly lower than the Distributions declared as the company pays its employees their annual bonuses in that quarter.

DISCLOSURE CONTROLS

As of September 30, 2006, an evaluation of the effectiveness of disclosure controls and procedures (as defined under *Multilateral Instrument 52-109*) was carried out by our management team under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

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 14, 2006.

HUMAN RESOURCE CONSULTING AND
ADMINISTRATIVE SOLUTIONS

Morneau Sobeco is an industry leader in helping organizations deliver their human resource programs. For more than four decades, we have teamed up with North American companies to help them conceive and implement effective business solutions. The size and diversity of our client base gives our consultants a unique, forward-looking perspective on all compensation, retirement, and employee benefits issues.

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