MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEET (unaudited)

AS AT SEPTEMBER 30, 2005

(In thousands of dollars)

Assets

Current assets:		
Cash	$	6,689
Accounts receivable		25,352
Unbilled fees		4,087
Income taxes recoverable		2,325
Prepaid expenses and other		1,343
		39,796
Future income taxes (note 9)		536
Capital assets (note 4)		11,703
Intangible assets (note 5)		135,000
Goodwill (note 3)		126,511
	$	313,546

Liabilities and Unitholders' Equity

Current liabilities:		
Bank indebtedness (note 6)	$	5,000
Accrued compensation and related benefits		8,175
Accounts payable and accrued liabilities		5,592
		18,767
Insurance premium liabilities:		
Payable to insurance companies		5,964
Less related cash balances held		(5,964)
Term loan (note 6)		35,000
Non-controlling Interest (note 8)		74,922
Unitholders' Equity (note 7)		184,857
	$	313,546

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

FOR THE PERIOD FROM AUGUST 22, 2005 TO SEPTEMBER 30, 2005

(In thousands of dollars)

Cash provided by (used in):	
Financing activities:	
Issuance of trust Units on initial public offering (note 7)	$ 199,793
Expenses related to initial issuance of trust Units (note 7)	(14,936)
Proceeds from operating line of credit (note 6)	5,000
Proceeds from long-term debt (note 6)	35,000
Repayment of term loan (note 6)	(10,000)
	214,857
Investing activities	
Business acquisition of W.F. Morneau Services Inc., net of cash acquired of $1,689 (note 3)	(208,168)
Increase in cash, being cash balance at end of period	$ 6,689

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PERIOD FROM AUGUST 22, 2005 TO SEPTEMBER 30, 2005 (Unaudited)

(In thousands of dollars except for per unit amounts)

1. NATURE OF THE BUSINESS:

Morneau Sobeco Income Fund (the "Fund") is a leading 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.

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 has been established through the issuance of one unit for ten dollars. The Fund is authorized to issue an unlimited number of trust units ("Units"). On September 30, 2005, the Fund completed an initial public offering of Units and indirectly acquired all of the shares of a successor to W.F. Morneau Services Inc. ("Morneau Sobeco"). Each unitholder participates pro rata in any distribution from the Fund. Income tax obligations related to the distributions of the Fund are the obligations of the unitholders.

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:

Morneau Sobeco Limited Partnership ("MSLP")	Morneau Sobeco Corporation ("MSC")
Morneau Sobeco Group Limited Partnership ("MSGL")	Morneau Sobeco GP Inc ("MSGP")
Morneau Sobeco, Ltd. ("MSUS")	Morneau Sobeco Trust ("MSIT")

As the Fund was established on August 22, 2005 and had no revenue or expenses until September 30, 2005 when the Fund acquired Morneau Sobeco, there is no Statement of Income or earnings per unit for the period to September 30, 2005.

(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 periods. 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.

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.

(d) 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 sheets 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.

(e) Financial instruments:

The fair values 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.

(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
Data processing 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 consisting principally of customer relationships, proprietary software and customer contracts have been recognized on acquisition 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 twenty, five and three years respectively.

Goodwill is not amortized and will be 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 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 balances:

In its capacity as consultants, the Fund collects premiums from insureds and remits premiums, net of agreed deductions, such as taxes and commissions, to insurance underwriters. These are considered flow-through items for the Fund and, as such, the cash 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 10 employees, 3 retirees and 55 deferred vested members. 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.

3. BUSINESS ACQUISITION

On September 30, 2005, the Fund completed an initial public offering and the sale of 19,979,284 trust units for $10.00 per unit, for total gross proceeds of $199,793. Through a series of transactions subsequent to the offering, the Fund acquired the common shares of Morneau Sobeco with the Class B unitholders of the Fund retaining approximately a 27.3% interest in Morneau Sobeco. As disclosed in note 16, the Class B unitholders' interest in Morneau Sobeco was reduced to approximately 20% subsequent to the period end.

The acquisition has been accounted for by the purchase method. The preliminary allocation of the purchase price is summarized as follows:

Assets and liabilities acquired:	
Cash	$1,689
Accounts receivable	25,352
Income taxes	2,325
Unbilled fees	4,087
Prepaid expenses and other	1,343
Future income taxes	536
Capital assets	11,703
Intangible assets	135,000
Goodwill	126,511
Accrued compensation and related benefits	(8,175)
Accounts payable and accrued liabilities	(5,592)
Payable to insurance companies	(5,964)
Related cash balances held	5,964
Term loan	(10,000)
	$284,779
Consideration:	
Cash	$209,857
Class B Exchangeable units	74,922
	$284,779

4. CAPITAL ASSETS:

The Fund's capital assets are comprised of:

	Cost and Net book value
Data processing equipment	$ 1,392
Furniture and equipment	2,728
Leasehold improvements	7,583
	$11,703

5. INTANGIBLE ASSETS:

The Fund's intangible assets are comprised of:

	Cost and Net book value
Customer relationships	$ 90,000
Customer contracts	5,000
Proprietary software	40,000
TOTAL	$ 135,000

6. BANK INDEBTEDNESS AND TERM LOAN:

On September 30, 2005, the Fund repaid the term loan relating to the business acquired of $10,000 (note 3).

At September 30, 2005, the Fund has 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 four year term.

The Fund also has available a secured operating line of credit for $15,000. To facilitate the cash transfers during the closing of the initial public offering and business acquisition described in Note 3 on September 30, 2005, the Fund drew a temporary advance of $5,000 from the line of credit which was repaid in October.

6. BANK INDEBTEDNESS AND TERM LOAN (continued):

The secured drawn line of credit bears interest at the bankers' acceptance rate plus 1% and 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. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of trust units ("Units"). On September 30, 2005, the Fund issued 19,979,284 units at a price of $10.00 per Unit.

Proceeds from the initial public offering of 19,979,284 units	$199,793
Units' issuance costs	(14,936)
Net proceeds and Unitholders' equity at end of period	$184,857

The Fund is also authorized to issue 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. On September 30, 2005, the Fund issued 7,492,232 Special Voting Units to the former shareholders of Morneau Sobeco.

8. NON-CONTROLLING INTEREST

As part of the transaction described in note 3, the former shareholders of W.F. Morneau Services Inc. received 7,492,232 Class B units of Morneau Sobeco Group Limited Partnership. The units are fully exchangeable for equal Units in the Fund subject to certain restrictions.

	September 30, 2005	
	Units Issued	Amount
Subordinated Class B LP Units	6,092,981	$60,930
Non-subordinated Class B LP Units	1,399,251	$13,992
Total:	7,492,232	$74,922

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 and will be paid at the end of a fiscal quarter to the extent of an average monthly distribution of at least $0.06875 per Unit and Non-subordinated Class B LP Unit in respect of that quarter, 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 Morneau Sobeco Group Limited Partnership 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.

9. INCOME TAXES:

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 future income tax asset of $536 relates to the excess of tax bases of capital assets and intangibles over their carrying values.

10. 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.

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

Fair value of plan assets	$2,854
Accrued benefit obligation	3,687
Funded status — deficit	$(833)
Reconciliation of accrued benefit obligation to accrued benefit asset (liability), end of period:	
Plan assets at fair value	$2,854
Accrued benefit obligation	3,687
Funding status — plan deficit	(833)
Unamortized net actuarial loss	278
Unamortized transitional obligation	561
Accrued benefit asset	$6
End of period allocation of fair value of plan assets (%):	
Pooled balanced fund (60% equities, 40% bonds)	90%
Pooled bond fund	10%
	100%

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.

10. EMPLOYEE FUTURE BENEFITS (continued):

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	5.00%
Discount rate at the end of preceding period used to determine the benefit cost	5.75%
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%

11. COMMITMENTS:

The Fund has lease commitments for office premises and equipment with options for renewal. 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:

2005	1,146
2006	4,237
2007	3,871
2008	3,634
2009	3,214
Thereafter	8,412
	$24,514

12. FINANCIAL INSTRUMENTS:

Financial instruments that potentially subject the Fund to a significant concentration of credit risk consist primarily of bank balances and accounts receivable. The Fund limits its exposure to credit loss by placing its cash in hand with high credit quality financial institutions. Concentration of credit risk with respect to accounts receivable are considered to be limited based on management's assessment of the credit quality of the customers comprising the Fund's customer base. The maximum amount of credit risk exposure is limited to the carrying amounts of these balances in the consolidated financial statements.

13. CONTINGENCIES:

The Fund has issued a letter of guarantee in the amount of $20 as required under the terms of the administration agreement with one of its clients. As at September 30, 2005, no amounts have been drawn under this letter of guarantee.

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.

14. ECONOMIC DEPENDENCE:

The Fund’s largest client accounts for approximately 14% of the Fund’s revenue and its top 10 clients, in the aggregate, account for approximately 36% of revenue. 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.

15. SEGMENTED INFORMATION:

The Fund's operations consist of a single segment with revenue and assets in both Canada and the United States. As at September 30, 2005 total assets in the U.S. were $1,800 US and total liabilities of $370 US.

16. SUBSEQUENT EVENT:

On October 18, 2005 the over-allotment option of the Fund’s public offering was exercised resulting in an additional 1,997,928 units of the Fund being issued for net cash proceeds of $18,830 (net of the Units’ issuance costs of $1,149) which reduced the non-controlling interest in the Fund to approximately 20%.

On October 21, 2005 the Board of Trustees approved a cash distribution of $0.07104 per unit for the month ended October 31, 2005, to be paid November 15, 2005 to holders of record of units of the Fund on October 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF COMBINED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations of Morneau Sobeco Income Fund (the "Fund") should be read in conjunction with the unaudited financial statements of Morneau Sobeco Income Fund.

The MD&A is in respect of the Fund's first reporting period, August 22, 2005 to September 30, 2005 and consequently, no comparative information is provided in the Fund's unaudited interim consolidated financial statements. However, in order to enhance the usefulness of this MD&A, certain financial and operating results of the Fund have been combined with its predecessor entity W.F. Morneau Services Inc. ("WFMS").

This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed under "Risk and Uncertainties". This discussion also makes reference to certain non-GAAP measures such as EBITDA and Adjusted EBITDA to assist in assessing the Fund's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Certain totals, subtotals and percentages may not reconcile due to rounding.

Formation of the 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. On September 30, 2005, the Fund completed an initial public offering and the sale of 19,979,284 trust units for $10.00 per unit, for total gross proceeds of $199,792,840. Through a series of transactions subsequent to the offering on September 30, 2005, the Fund acquired the common shares of WFMS with the shareholders of WFMS retaining approximately a 27.3% interest in the successor to WFMS.

The acquisition was accounted for by the purchase method with the results of WFMS' operations included in the Fund's income from the date of acquisition.

The Fund's units trade on the Toronto Stock Exchange under the symbol MSI.UN. Additional information relating to the Fund can be found on www.morneausobeco.com.

Overview

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. We focus on the integrated design and delivery of retirement and employee compensation and benefit programs. We have approximately 950 professionals and support staff with offices in 11 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. In addition, we earn interest income from our cash balances which is included in other revenue. Fees from consulting engagements are charged based on billable hours or fee-for-service. In some cases, consulting engagements can also 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. 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. Any additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis.

For some group consulting assignments which involve insurance, we may be paid commissions (in lieu of fees) by the client's insurance company, which is a common practice for a benefits consulting business. These commissions are typically disclosed to the client and are based on a percentage of the premiums paid by the client to the insurance company. We assume no underwriting risk as the insurance policy is underwritten by the insurance company.

Our largest operating expense is compensation and related expenses, which includes salaries, annual performance-based bonuses, benefits (e.g. pension, health, dental), payroll taxes and temporary staffing services. For the unaudited consolidated financial statements 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, software), non-recoverable client service costs (printing, travel, third party professional services), indirect personnel costs (training), marketing, office costs, professional services (legal, audit) and insurance.

Distributions

As the initial public offering closed on September 30, 2005, the Fund did not declare any distributions for the period to September 30, 2005. The Fund has announced its intention to make its first distribution of $0.07104 per unit, on November 15, 2005, covering the period to October 31, 2005 to its unitholders of record on October 31, 2005.

Recent Events

On October 18, 2005 the over-allotment option of the Fund’s public offering was exercised resulting in the issuance of an additional 1,997,928 units of the Fund. As a result, the non-controlling interest has been reduced to approximately 20% in the successor to WFMS.

Results of Operations

The following summary financial information is derived from WFMS' unaudited consolidated financial statements for the three months ended September 30, 2005 and 2004 and the unaudited consolidated financial statements for the nine months ended September 30, 2005 and 2004.

Management believes that Adjusted EBITDA is a useful measure in evaluating the performance of the Company as certain previous arrangements are non-recurring and will differ materially from ongoing arrangements following completion of the Offering. Accordingly, we have made the following two adjustments:

(i) As a private company, WFMS has historically paid out substantial amounts of pre-tax income as distributions to its shareholders and partners each year. Distributions to employee shareholders are reflected as salary expenses. Distributions to partners are reflected as partnership earnings. Since the practice of paying such distributions has been discontinued effective September 30, 2005, management believes that an adjustment to historical EBITDA to account for such distributions should be made to arrive at an adjusted amount of EBITDA. As the new executive compensation arrangements effective October 1, 2005 differ materially from the previous arrangements, management believes that adjustments relating to the new executive compensation arrangements is 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 in 2005 and 2004.

(ii) We have also adjusted EBITDA in 2004 as one of our subsidiaries was eligible for a tax credit in relation to certain e-business activities. This credit was historically recorded as a reduction to salaries and benefits expense and will not be available going forward.

	Three months ended September 30		Nine months ended September 30,	
($ thousands)	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Revenue	$28,987	$27,880	$90,252	$87,926
Net income	(1,981)	155	(463)	3,195
Add:				
Amortization	626	605	1,896	1,745
Taxes	(651)	(9)	459	1,755
Interest	86	39	185	161
EBITDA[1]	(1,920)	790	2,077	6,856
Adjustments:				
Executive compensation and employee shareholder and partner distributions adjustments[2]	6,739	4,374	16,703	12,896
Tax credit adjustments		(372)		(1,115)
Adjusted EBITDA[1]	$ 4,819	$ 4,792	$18,780	$18,637
Margin	17%	17%	21%	21%

Balance Sheet Information	As at September 30, 2005 (unaudited)
Total assets	$313,546
Total debt	$35,000
Other liabilities	93,689
Unitholders' / shareholders' equity	184,857
Total liabilities & equity	$313,546

Notes:

(1) "EBITDA" is defined as earnings before interest expense, income taxes, depreciation and amortization. EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is EBITDA adjusted to remove executive compensation, employee shareholder and partner distributions, and tax credits which The Fund will no longer be eligible to receive. EBITDA and Adjusted EBITDA are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

(2) Represents the difference between historical executive compensation and employee shareholder and partner distributions and levels of compensation following Closing.

Three Months Ended September 30, 2005 Compared to September 30, 2004

Revenue

Revenue for the three month period ended September 30, 2005 increased by $1.1 million, or 4.0%, to $29.0 million compared to $27.9 million for the same period in 2004. The increase in revenue was a result of additional consulting and outsourcing business from a wide variety of clients, with one client increasing in revenue by $1.1 million. This was partially offset by a $0.9 million reduction in outsourcing fees related to the termination of one contract in the U.S.

Salaries and benefits

Salaries and benefits for the three month period ended September 30, 2005 increased by $4.0 million, or 19.9%, to $24.5 million compared to $20.5 million for the same period in 2004. The increase was attributable to higher employee shareholder distributions and one-time bonuses of $3.1 million, the elimination of tax credits of $0.4 million and salary increases of $0.5 million. Excluding employee shareholder distributions, one-time bonuses and 2004 tax credits of $6.1 million for the three months ended September 30, 2005 and $2.6 million for the same period in 2004, salaries and benefits increased 3.3% from $17.9 million to $18.4 million.

Other operating expenses

Other operating expenses for the three month period ended September 30, 2005 increased by $0.4 million, or 6.7%, to $6.3 million compared to $5.9 million for the same period in 2004. The increase was attributable to higher than usual travel and entertainment expenses of $0.3 million and rent and occupancy cost increases of 5.1% or $0.1 million.

Interest expense

Interest expense for the three month period ended September 30, 2005 increased by $47 thousand or 120% as borrowing increased from the same period in 2004 due to increased employee shareholder and partner distributions. On September 30, 2005, debt increased to $35 million with the closing of the initial public offering.

Amortization

Amortization for the three month period ended September 30, 2005 increased by $20 thousand or 3.5%, to $0.6 million in 2005 and in 2004. The increase was primarily attributable to a higher level of purchases of computer equipment rather than leasing which resulted in increased depreciation expense.

Partnership earnings

Distributions from the Company's limited partnership subsidiary for the three month period ended September 30, 2005 were nil compared to $0.7 million for the same period in 2004 as there were no external partners since April 29, 2005 when the interest of the final external partner was acquired by existing shareholders.

Income tax expense

Income tax expense for the three month period ended September 30, 2005 decreased by $0.6 million to $(0.6) million compared to $(9) thousand for the same period in 2004. The decrease was primarily attributable to increased employee shareholder distributions and one-time bonuses.

Net income

As a result of the changes in revenue and expenses described above, net income for the three month period ended September 30, 2005 decreased by $2.1 million to $(2.0) million compared to $0.1 million for the same period in 2004.

Nine Months Ended September 30, 2005 Compared to September 30, 2004

Revenue

Revenue for the nine month period ended September 30, 2005 increased by $2.3 million, or 2.7% to $90.3 million compared to $87.9 million for the same period in 2004. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients with one client increasing in revenue by $2.3 million. This was partially offset by a $2.6 million reduction in outsourcing fees related to the termination of one contract in the U.S.

Salaries and benefits

Salaries and benefits for the nine month period ended September 30, 2005 increased by $2.4 million, or 3.8%, to $64.1 million compared to $61.7 million for the same period in 2004. The increase was attributable to salary increases of $2.2 million and the elimination of tax credits of $1.1 million, partially offset by reduced employee shareholder distributions and one-time bonuses of $0.9 million. Excluding employee shareholder distributions, one-time bonuses and 2004 tax credits of $8.1 million for the nine months ended September 30, 2005 and $7.9 million for the same period in 2004, salaries and benefits increased 4.1% from $53.8 million to $56.0 million.

Other operating expenses

Other operating expenses for the nine month period ended September 30, 2005 remained relatively unchanged compared to the same period in 2004.

Interest expense

Interest expense for the nine month period ended September 30, 2005 remained relatively unchanged compared to the same period in 2004. On September 30, 2005, debt increased to $35 million with the closing of the initial public offering.

Amortization

Amortization for the nine month period ended September 30, 2005 increased by $0.2 million, or 8.6%, to $1.9 million compared to $1.7 million for the same period in 2004. The increase was primarily attributable to a higher level of purchases of computer equipment rather than leasing which resulted in increased depreciation expense. A $77,702 writedown of intangible assets was taken on June 30, 2005.

Partnership earnings

Distributions from the Company's limited partnership subsidiary for the nine month period ended September 30, 2005 increased by $4.7 million to $6.8 million compared to $2.1 million for the same period in 2004. The increase was attributable to the final partnership distribution negotiated in the buyout of the final external partner on April 29, 2005.

Income tax expense

Income tax expense for the nine month period ended September 30, 2005 decreased by $1.3 million, or 73.9%, to $0.5 million compared to $1.8 million for the same period in 2004. The decrease was primarily attributable to increased partner distributions.

Net income

As a result of the changes in revenue and expenses described above, net income for the nine month period ended September 30, 2005 decreased by $3.7 million to $(0.5) million compared to $3.2 million for the same period in 2004.

Geographic Revenue

U.S. revenue booked in our U.S. subsidiary declined to 7.4% of total revenue for the nine months ended September 30, 2005 from 11.6% of total revenue for the nine months ended September 30, 2004. The percentage decline was the result of the strengthening Canadian dollar compared to the U.S. dollar, the termination of a certain low margin U.S. contract and the growth of our Canadian revenues. During the aforementioned time periods, our Canadian subsidiaries increased the amount of revenue received from U.S. clients. As this revenue is received in Canadian dollars, it is not subject to currency fluctuation.

Liquidity and Capital Resources

WFMS has historically utilized cash from operations to finance working capital requirements and fund growth. As at September 30, 2005, The Fund's working capital (current assets minus current liabilities) was approximately $21.0 million. Liabilities consist mainly of accrued compensation and related benefits of $8.2 million and accounts payable and accrued liabilities of $5.6 million. WFMS has also maintained its credit facilities to manage working capital requirements throughout the year. The Fund's existing credit facilities include a term loan of $35.0 million and a line of credit of up to $15 million at bankers' acceptance rates plus 1%. As at September 30, 2005, the term loan was fully drawn and the Fund had excess cash of $1.7 million.

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

($ thousands)	As at September 30 2005 (unaudited)
Cash (net of line of credit)	$ 1,689
Long-term debt	35,000
Working capital	21,029
Shareholders' equity	184,857

The following table provides an overview of Morneau Sobeco's cash flows for the periods indicated.

($ thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
	(unaudited)			
Operating Activities	$3,861	$4,611	$(3,824)	$3,282
Less Employee Shareholder Distributions and one-time bonuses	1,948	(1,750)	18,663	3,632
Adjusted Operating Activities	5,809	2,861	14,839	6,914
Investing Activities	(211,884)	528	(212,316)	(1,581)
Financing Activities	214,857	(157)	218,357	1,407
Less Partner Distributions	-	149	2,500	1,382
Adjusted Financing Activities	214,857	(8)	220,857	(25)
Increase (decrease) in cash before employee shareholder and partner distributions and one-time bonuses	8,782	3,380	23,380	5,308
Employee shareholder and partner distributions and one-time bonuses[1]	(1,948)	1,601	(21,163)	(5,014)
Increase (decrease) in cash after employee shareholder and partner distributions and one-time bonuses	$6,834	$4,981	$2,217	$294

Note:

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

Cash inflows from adjusted operating activities increased by $2.9 million to $5.8 million for the three months ended September 30, 2005 from $2.9 million for the same period in 2004. This increase was due to improved collections of receivables and unbilled fees of $0.8 million and increased accrued liabilities relating to IPO costs of $2.1 million. Cash outflows from investing activities increased by $212.4 million for the three months ended September 30, 2005 to $211.9 million from a $0.5 million inflow for the same period in 2004. This increase was attributable to the purchase of W.F. Morneau Services Inc. for $209.8 million, $1.2 million in dividends paid and increased net capital asset sales of $1.4 million largely due to the completion of our facilities. Cash inflows from adjusted financing activities increased by $214.9 million for the three months ended September 30, 2005 to $214.9 million from nil for the same period in 2004. This increase was attributable to the proceeds from the IPO of $199.8 million less costs of $14.9 million, $25.0 million in additional term loans and $5.0 million temporary line of credit required to facilitate the cash transfers at closing. Cash outflows from employee shareholder and partner distributions and one-time bonuses increased by $3.5 million to $1.9 million for the three months ended September 30, 2005 from an inflow of $1.6 million for the same period in 2004. This was due to larger payments made in 2005 for both 2004 and 2005.

Cash inflows from adjusted operating activities increased by $7.9 million to $14.8 million for the nine months ended September 30, 2005 from $6.9 million for the same period in 2004. This increase was due to improved collections of receivables and unbilled fees of $5.0 million, increased accrued liabilities relating to IPO costs of $2.1 million and increased cash from operations and other working capital of $0.8 million. Cash outflows from investing activities increased by $210.8 million for the nine months ended September 30, 2005 to $212.4 million from $1.6 million for the same period in 2004. This increase was attributable to the purchase of W.F. Morneau Services Inc. for $209.8 million, $1.2 million in dividends paid, off-set by reduced net capital asset purchases of $0.2. Cash inflows from adjusted financing activities increased by $218.6 million for the nine months ended September 30, 2005 to $220.9 million from nil for the same period in 2004. This increase was attributable to proceeds from the IPO of $199.8 million less costs of $14.9 million, $31.0 million in additional term loans and $5.0 million temporary line of credit required to facilitate the cash transfers at closing. Cash outflows from employee shareholder and partner distributions and one-time bonuses increased by $16.0 million to $21.2 million for the nine months ended September 30, 2005 from $5.0 million for the same period in 2004. This was due to large payments made in 2005 for both the 2004 and 2005 distributions.

Seasonality

The Fund's business is not subject to significant seasonal fluctuations. There is slightly less fee-for-service consulting revenue in the months of July, August and December due to consulting staff and client staff vacations during these months. There is slightly more commission-based consulting revenue in the months of October and November due to client policy renewals.

Total Contractual Obligations

We lease office space and selected equipment under operating lease agreements with terms ranging from one to nine years. We also have long-term debt under our current credit facilities. Future expected payments are as follows:

			Payments due by Period		
	Total	Oct to December 2005	2006 to 2008	2009 to 2010	Beyond 2010
			(in millions)		
Long-term debt	$35.0	$ —	$ —	$35.0	$ —
Operating Leases	$24.5	$1.2	$11.7	$ 5.9	$5.7
Total	$59.5	$1.2	$11.7	$40.9	$5.7

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

Critical Accounting Policies and Estimates

The preparation of financial statements, in accordance with GAAP, requires management 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:

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 management estimates 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.

Amortization of finite-life intangible assets

Under GAAP, finite-life intangible assets are amortized over their estimated useful lives. Management estimates, based on historical experience, that the estimated useful life of the customer relationships acquired in prior acquisitions is 20 years.

The Fund has accounted for its acquisition of WFMS 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 management's best estimate of the relative fair values. These intangible assets are being amortized over their estimated useful lives of 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 fair value of the Fund and its net assets including goodwill. An impairment loss will be recognized if the carrying amount of the Fund's net assets exceeds its fair value.

Allowance for doubtful accounts

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

Litigation and claims

The Fund is involved in litigation and other claims arising in the normal course of business. Management 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. Management believes that none of the current claims will have a material adverse impact on the financial position of The Fund.

Future income tax

The Fund uses the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized. The income taxes recoverable relate to a tax credit for e-commerce activities in prior years which will no longer be available to one of the Fund's subsidiaries following completion of the Offering.

Financial Instruments and Other Instruments

The Fund's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities whose carrying values approximate fair values due to their short-term nature.

The Fund has a term loan with two Canadian chartered banks repayable on September 30, 2009. Interest is fixed for the term at 4.4%. The Fund also has available an operating line of credit for $15 million. The line of credit bears interest at the bankers' acceptance rate plus 1%.

The Fund is not engaged in currency hedging activities and does not own other instruments that may be settled by the delivery of non-financial assets. The Fund realizes a portion of its sales in U.S. dollars and is 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$1.9 million for the nine months ended September 30, 2005. In management's 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 the control of management of the Company.

Ability to Maintain Profitability and Manage Growth

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

There can be no assurance that The Fund will be successful in achieving its strategic plan

or that its strategic plan will enable it to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of The Fund'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 The Fund will be able to effectively manage its growth, and any failure to do so could have a material effect on its and the Fund's 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 The Fund's business and the products and services offered to its clients. The Fund 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. 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 Company, all of which could materially adversely affect The Fund's business, financial condition and results of operations and the ability of the Fund to make distributions on the Units.

Dependence on Key Clients

For the nine months ended September 30, 2005, The Fund's largest client accounted for approximately 14% of the Fund's revenue and its top 10 clients, in the aggregate, accounted for approximately 36% of revenue. 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.

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 in our business than in other businesses. Moreover, if we fail to meet our contractual obligations, we could be subject to legal liability or loss of client relationships.

Risk of Future Legal Proceedings

The Fund 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 nature of the Fund's business involves assumptions and estimates concerning future events, the actual outcome of which the Fund cannot know with certainty in advance. In addition, the Fund could make computational, software programming or data management errors. The Fund's 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 benefit 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 provided by the Fund could require substantial amounts of management attention, which could divert their focus from operations and could materially adversely affect the Fund's financial condition. Any such claims may produce negative publicity that could hurt the Fund's reputation and business. A significant judgment against The Fund or the imposition of a significant fine or penalty as a result of a finding that The Fund failed to comply with laws or regulations could have a significant adverse impact on The Fund's business, financial condition and results of operations and the ability of the Fund to make distributions on the Units.

Reliance on Key Professionals

The Fund's operations are dependent on the abilities, experience and efforts of its professionals, many of whom have significant reputations and contacts in the industry in which The Fund operates. If the Fund fails to establish and maintain alliances for marketing its services, its ability to increase revenue and profitability may suffer. The Fund's growth depends, in part, on its 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 its services. If the Fund's strategic alliances are discontinued, due to the loss of professional staff or otherwise, or if the Fund has difficulty developing new alliances, the Fund's ability to increase its client base may be substantially diminished. Should any member of its professional staff be unable or unwilling to continue their relationship with The Fund, the business, financial condition and operating results of The Fund and the ability of the Fund to make distributions on the Units could be materially adversely impacted.

Competition

The Fund operates in a highly competitive North American market in its service areas. As a result, The Fund competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which The Fund competes. In addition, some of The Fund's competitors have substantially more financial resources and/of financial flexibility than The Fund. These competitive forces could have a material adverse effect on the business, financial condition and results of operations of The Fund and the ability of the Fund to make distributions on the Units by reducing The Fund's current market share in the area it serves.

Further detail is provided in the “Risk Factors” section of the Fund’s final prospectus dated September 21, 2005.

Outlook

The management of The Fund believes that the Fund's ongoing cash flow from operations and the funds available under the New Credit Facilities will be sufficient to allow it to meet ongoing requirements for capital expenditures, working capital and distributions. The Fund's future needs may, however, change, and in such event the Fund's ability to satisfy its obligations will be dependent upon its future financial performance, which in turn will be subject to a number or risks and uncertainties, including elements beyond the Fund's control. See "Risk and Uncertainties".