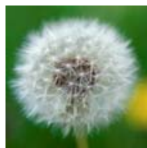
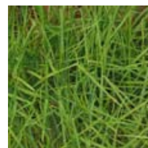
Morneau Sobeco Income Fund



2010 Second Quarter Results



MORNEAU SOBECO

MORNEAU SOBECO INCOME FUND

MORNEAU SOBECO

Fresh thinking.
Innovative solutions.

August 10, 2010

To Our Unitholders

Morneau Sobeco Income Fund (the “Fund”) is pleased to present its second quarter 2010 results for its operating business. Revenue for the 2010 second quarter, while comparable to last year, did not meet the Fund’s growth expectations. This was primarily as a result of a modest decline in its employee assistance business due to a lagging impact of the recession. In the face of this challenge however, the Fund maintained solid revenue through continued growth in its consulting and outsourcing businesses and improved EBITDA margins through prudent cost management.

The Fund reported 2010 second quarter revenue of $83.7 million, a 1.4 percent decrease from $84.9 million for the three months ended June 30, 2009. Operating and administrative expenses (including salary, benefit and contractor expenses) totalled $67.6 million in Q2 2010, compared with $68.9 million in Q2 2009. Net income in Q2 2010 was $6.5 million, compared with $3.3 million in Q2 2009.

Standardized EBITDA of $16.0 million was unchanged from Q2 2009, Standardized EBITDA margin was 19.2 percent, compared with 18.8 percent in Q2 2009.

The Fund is positive about its prospects for the remainder of 2010. Year to date 2010 EAP new business has already surpassed the total 2009 EAP new business. This, in addition to the new business the Fund has won in its other business lines, and its strong sales pipeline for the rest of the year will translate into revenue going forward.

Executive Chairman *President & CEO*

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

Yours truly,

WILLIAM MORNEAU
Executive Chairman

ALAN TORRIE
President & CEO

HIGHLIGHTS

STRONG FINANCIAL RESULTS FOR THE SECOND QUARTER

RESULTS HIGHLIGHT CONSISTENT PERFORMANCE AND CONTINUED GROWTH

MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of dollars)

	As at June 30, 2010	As at December 31, 2009
Assets		
Current assets:		
Cash	$ -	$ 1,606
Accounts receivable	58,727	53,791
Unbilled fees	17,651	17,526
Income taxes recoverable	1,642	1,796
Prepaid expenses and other	4,331	3,288
Current portion of deferred implementation costs	520	167
	82,871	78,174
Foreign exchange contracts	208	479
Deferred implementation costs	2,295	929
Capital assets	15,350	15,333
Intangible assets	243,464	253,659
Goodwill	300,792	300,792
	$ 644,980	$ 649,366
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 6,879	$ -
Accounts payable and accrued liabilities	27,717	39,139
Deferred revenues	2,524	1,795
Current portion of long-term debt (note 4)	25,000	11,500
Current portion of promissory note	4,500	4,306
Future consideration related to acquisition (note 3)	-	2,457
Unitholder distributions payable (including non-controlling)	3,759	3,759
	70,379	62,956
Insurance premium liabilities:		
Payable to insurance companies	15,788	9,313
Less related cash and investments held	(15,788)	(9,313)
	-	-
Long-term debt (note 4)	159,121	158,887
Interest-rate swaps (note 4)	6,190	6,656
Other liabilities	9,671	10,206
Future income taxes	9,489	12,179
	254,850	250,884
Non-controlling interests (note 6)	43,572	46,137
Unitholders' equity (note 5)	346,558	352,345
	$ 644,980	$ 649,366

Commitments and Contingencies (notes 3, 10 and 11)
Economic dependence (note 12)

Robert Chisholm
Trustee, Audit Committee Chair

Alan Torrie
Trustee, President and CEO

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the three and six months ended June 30, 2010 and 2009

(Unaudited)

(In thousands of dollars, except per unit amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Revenue				
Fees	$ 79,246	$ 80,110	$ 156,423	$ 157,738
Commissions	4,386	4,650	8,598	8,740
Other	37	143	73	181
	83,669	84,903	165,094	166,659
Expenses				
Salary, benefit and contractor expenses	53,718	55,174	107,426	109,312
Other operating expenses	13,928	13,742	27,797	29,024
Amortization of capital assets	1,136	921	2,127	1,802
Amortization of intangible assets	5,632	10,551	12,520	21,019
Interest expense (note 4)	2,601	2,997	5,113	7,960
	77,015	83,385	154,983	169,117
Income (loss) before income taxes and non-controlling interest	6,654	1,518	10,111	(2,458)
Income taxes (recovery)				
Current	214	(16)	444	256
Future	(884)	(2,192)	(2,251)	(5,827)
	(670)	(2,208)	(1,807)	(5,571)
Income before non-controlling interest	7,324	3,726	11,918	3,113
Non-controlling interest (note 6)	(807)	(438)	(1,324)	(355)
Net Income	6,517	3,288	10,594	2,758
Other comprehensive income (loss)				
Unrealized gain (loss) on interest rate cash flow hedges, net of tax effect	(87)	3,076	904	2,979
Comprehensive income (loss) for the period	$ 6,430	$ 6,364	$ 11,498	$ 5,737
Net income per Unit (basic) (note 8)	$ 0.15	$ 0.08	$ 0.25	$ 0.07
Net income per Unit (diluted) (note 8)	$ 0.15	$ 0.08	$ 0.25	$ 0.07

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
For the six months ended June 30, 2010 and 2009
(Unaudited)
(In thousands of dollars)

For the six months ended June 30, 2010

	Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2009	$ 415,667	$ 3,835	$ (5,945)	$ (61,212)	$ 352,345
Exchange of Class B LP Units (note 5)	1,364	-	-	-	1,364
Long-term incentive plan – non-cash expense	-	1,324	-	-	1,324
Long-term incentive plan – settlement of awards through Treasury (note 5)	169	(69)	-	(49)	51
Net income for the period	-	-	-	10,594	10,594
Comprehensive income for the period	-	-	904	-	904
Distributions	-	-	-	(20,024)	(20,024)
Balance June 30, 2010	$ 417,200	$ 5,090	$ (5,041)	$ (70,691)	$ 346,558

For the six months ended June 30, 2009

	Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, December 31, 2008	$ 362,223	$ -	$ (10,469)	$ (32,997)	$ 318,757
Exchange of Class B LP Units	745	-	-	-	745
Issuance of Units	55,000	-	-	-	55,000
Units issuance costs, net of future income tax benefits	(2,467)	-	-	-	(2,467)
Long-term incentive plan - conversion	(3,176)	1,650	-	-	(1,526)
Long-term incentive plan	-	943	-	-	943
Net income for period	-	-	-	2,758	2,758
Comprehensive income for the period	-	-	2,979	-	2,979
Distributions	-	-	-	(18,798)	(18,798)
Balance, June 30, 2009	$ 412,325	$ 2,593	$ (7,490)	$ (49,037)	$ 358,391

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six months ended June 30, 2010 and 2009
(Unaudited)
(In thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Cash provided by (used in):				
Operating activities				
Net income	$ 6,517	$ 3,288	$ 10,594	$ 2,758
Items not involving cash:				
Amortization of capital assets	1,136	921	2,127	1,802
Amortization of intangible assets	5,632	10,551	12,520	21,019
Amortization of debt issue costs (note 4)	117	117	234	234
Non-controlling interests of Class B LP Units	807	438	1,324	355
Gain on sale of intangible assets	-	(94)	-	(94)
Long-term incentive plan	775	943	1,324	943
Future income taxes (recovery)	(884)	(2,192)	(2,251)	(5,827)
Accretion on promissory notes (note 4)	98	622	194	3,292
Fair value of forward exchange contracts	289	(1,336)	270	(819)
Other	(304)	(310)	(536)	(59)
	14,183	12,948	25,800	23,604
Change in non-cash operating working capital (note 9)	(12,975)	(11,365)	(18,307)	(13,952)
	1,208	1,583	7,493	9,652
Financing activities				
Issuance of units	-	-	-	55,000
Expenses related to issuance of units	-	-	-	(3,500)
Proceeds from long-term debt	-	23,000	-	23,000
Repayment of promissory note	-	(23,230)	-	(74,730)
Operating line of credit	10,000	7,000	13,500	8,000
Distributions paid	(11,274)	(11,235)	(22,552)	(20,934)
	(1,274)	(4,465)	(9,052)	(13,164)
Investing activities				
Business acquisition-Leong & Associates (note 3)	-	-	(2,457)	-
Proceeds on sale of intangible assets	-	218	-	218
Additions to intangible assets	(1,005)	(721)	(2,328)	(1,289)
Purchase of capital assets	(1,440)	(811)	(2,141)	(1,720)
	(2,445)	(1,314)	(6,926)	(2,791)
Net decrease in cash (bank indebtedness) for the period	(2,511)	(4,196)	(8,485)	(6,303)
Cash (Bank indebtedness), beginning of period	(4,368)	(2,611)	1,606	(504)
Bank indebtedness, end of period	$ (6,879)	$ (6,807)	$ (6,879)	$ (6,807)

Supplemental disclosure of cash flow information (note 9)

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended June 30, 2010 and 2009
(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 on August 22, 2005.

The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2009. The interim unaudited consolidated financial statements do not include all the information and disclosures required by Canadian GAAP and therefore should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Fund's annual report for the year ended December 31, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Future Accounting Changes

Multiple Deliverable Revenue Arrangements – Abstract EIC-175, *Multiple Deliverable Revenue Arrangements* was issued by the CICA to amend EIC-142, *Revenue Arrangements with Multiple Deliverables*. This new Abstract, effective on fiscal periods beginning on or after January 1, 2011, requires a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method and prohibits the use of the residual method. This new Abstract also allows an entity to use the best estimate of selling price in the absence of vendor-specific objective evidence, or other third party evidence of selling price and requires additional qualitative and quantitative disclosures. The adoption of this Abstract is not expected to have a material impact on the financial results of the Fund.

3. BUSINESS ACQUISITIONS

Leong & Associates Actuaries and Consultants Inc. ("Leong & Associates")

On October 1, 2008, a subsidiary of the Fund acquired all the issued and outstanding shares of Leong & Associates, a British Columbia based actuarial and pension consulting firm in Western Canada.

The purchase price is contingent on business results and is expected to be approximately $7,600 payable in three installments. The first installment was satisfied on closing through cash and equity consideration. The second installment of $2,457, which was subject to revenue adjustments plus interest calculated at annual rates of 3.27% and 3.87%, was paid during the first quarter. The third and final installment is subject to terms similar to those of the second installment and will be settled on April 1, 2011.

4. BANK INDEBTEDNESS AND LONG-TERM DEBT

	June 30, 2010	December 31, 2009
Non-revolving term loans	$ 160,000	$ 160,000
Revolving loans	25,000	11,500
	185,000	171,500
Less: current portion of long-term debt	(25,000)	(11,500)
Less: debt issue costs, net of accumulated amortization	(879)	(1,113)
	$ 159,121	$ 158,887

On April 15, 2010, the credit available under the revolving facility was amended for an increase of $25 million to $40 million. The terms of the facility remain consistent to those of the initial facility.

At June 30, 2010 the Fund had available and utilized the following credit facilities:

- $160,000 of term loans. The term loans are repayable in full on June 1, 2012 and bear interest at one month banker acceptance (“BA”) rate plus an applicable margin of 2.00%.
- $25,000 of $40,000 revolving loans. The revolving loans are BA loans which mature in July 2010, but are eligible for and are renewed on a monthly basis under the terms of the revolving loan until June 1, 2012. The loans bear interest at BA rate plus an applicable margin of 2.00%.
- $4,545 of the $5,000 swing line (bank indebtedness) available. The overdraft carries interest at prime plus an applicable margin of 2.00%.

The credit facilities are secured by a general assignment of all of the assets of the Fund, and require the Fund to comply with certain financial covenants on a consolidated basis. As at June 30, 2010, the Fund complied with all the required financial covenants, with Debt to Adjusted EBITDA and EBITDA to interest expense ratios of 2.9 and 6.6, respectively.

Interest-rate swap

As at June 30, 2010, the fair value of the Fund’s interest-rate swap agreements, in the notional amounts of $137,000 and $23,000, entered into to fix the variable component at 3.647% and 2.22% before the applicable margin, were $5,840 (December 31, 2009 - $6,358) and $350 (December 31, 2009 - $298) respectively. These interest-rate swaps were designated as cash flow hedges against the term loans outstanding.

Interest expense

Interest expense is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest on term loans	$ 2,172	$ 2,021	$ 4,320	$ 4,060
Accretion of interest on promissory notes	98	622	194	3,291
Interest on revolving loan, bank indebtedness and other charges	214	237	365	375
Amortization of debt issue costs	117	117	234	234
	$ 2,601	$ 2,997	$ 5,113	$ 7,960

5. FUND UNITS

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

	Units Issued	Special Voting Units	Total Units	Amount
Balance, December 31, 2009	42,280,489	5,463,326	47,743,815	$ 415,667
Exchange of Class B LP Units	202,494	(202,494)	-	1,364
Settlement of LTIP awards through Treasury	-	-	-	169
Balance, June 30, 2010	42,482,983	5,260,832	47,743,815	$ 417,200

On January 2, 2010, the Fund utilized 14,745 Treasury Units to settle DSU awards to a former employee resulting in a loss of $49, which represented the difference between the average price of the Treasury Units and the price used to determine the award, has been accounted for through the deficit balance in Unitholders' Capital. The Fund has 53,842 Treasury Units as at June 30, 2010.

6. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco, Heath Benefits Consulting Inc., and Leong & Associates own 5,260,832 Class B LP Units of MS Group LP (a subsidiary of the Fund). The Class B LP Units are fully exchangeable for an equal number of Units in the Fund which equates to a non-controlling interest of 11.0% (December 31, 2009 – 11.4%) in the Fund.

	Unit issued	Amount
Balance, December 31, 2009	5,463,326	$ 46,137
Exchanged Units	(202,494)	(1,364)
Share of income for the period	-	1,324
Distributions for the period	-	(2,525)
Balance, June 30, 2010	5,260,832	$ 43,572

7. LONG-TERM INCENTIVE PLAN

Deferred Stock Unit ("DSU") plan

On March 9, 2010 the Fund granted 334,012 LTIP DSUs to senior management of the Fund with vesting period commencing on May 1, 2010. These DSUs have the same features as the previous DSUs granted, except Holders of the DSUs do not receive cash bonuses equivalent to the distributions paid on the Units. Instead, Holders of the DSUs receive additional DSUs determined by dividing the amount of the distributions payable in respect of the DSUs by the Fair Market Value per Unit on the date credited. DSUs credited under this Distribution Reinvestment Policy ("DRIP") shall vest at the same rate as the Units on which they are determined.

8. NET INCOME PER UNIT

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

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Basic:				
Net income	$ 6,517	$ 3,288	$ 10,594	$ 2,758
Weighted average number of Units outstanding	42,423,747	41,996,963	42,337,026	39,019,052
Diluted:				
Net income	$ 6,517	$ 3,288	$ 10,594	$ 2,758
Non-controlling interest	807	438	1,324	355
Net income available to Unitholders and Class B LP Unitholders	$ 7,324	$ 3,726	$ 11,918	$ 3,113
Weighted average number of Units outstanding – Basic	42,423,747	41,996,963	42,337,026	39,019,052
Weighted average exchangeable Class B LP Units outstanding	5,283,084	5,611,306	5,369,723	5,636,342
Dilutive effect of LTIP – DSU plan	490,578	123,362	498,207	59,476
Total weighted average number of diluted Units	48,197,409	47,731,631	48,204,956	44,714,870
Net income per Unit				
- Basic	$ 0.15	$ 0.08	$ 0.25	$ 0.07
- Diluted	$ 0.15	$ 0.08	$ 0.25	$ 0.07

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

9. SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION

Change in non-cash operating working capital:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accounts receivable	$ (2,613)	$ (3,230)	$ (4,936)	$ (6,080)
Unbilled fees	(774)	(2,790)	(125)	(1,008)
Income taxes recoverable / payable	(66)	799	153	(23)
Prepaid expenses and other	(912)	(531)	(1,043)	646
Deferred implementation	(452)	-	(1,719)	-
Accounts payable and accrued liabilities	(7,916)	(5,927)	(11,366)	(8,353)
Deferred revenue	(242)	314	729	866
	$ (12,975)	$ (11,365)	$ (18,307)	$ (13,952)
Interest paid	$ 2,391	$ 2,113	$ 4,660	$ 4,202
Income taxes (recovered) paid	$ 81	$ 1	$ (229)	$ 952

Excluded from the consolidated statements of cash flows were the following non-cash transactions:

The settlement of vested DSU awards to a former employee resulted in an increase in Unitholders' Capital of $169, a decrease in contributed surplus of $69, and a charge to deficit of $49 (note 5).

10. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at June 30, 2010, the minimum payments not including operating expenses, due in each of the next five years and thereafter, are expected to be as follows for each year ending December 31:

2010 (remainder)	$ 5,467
2011	9,646
2012	8,308
2013	7,553
2014	6,447
Thereafter	41,939
Total	$ 79,360

The Fund is party to various subleases to which the Fund would be liable for the rental payment in the case of a default by the subtenants. The minimal payments related to these premises have been included above. The terms of the subleases extend through July 2022 and the aggregate sublease income on these subleases is $21,905. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

11. CONTINGENCIES

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

12. ECONOMIC DEPENDENCE

Revenue from the Fund's largest client was approximately 5% of the Fund's total revenue for the three and six months ended June 30, 2010 (for the three and six months ended June 30, 2009 – 5%). The Fund's top 10 clients, in the aggregate, accounted for approximately 22% and 23% of the Fund's total revenue for the three and six months ended June 30, 2010, respectively (for the three and six months ended June 30, 2009 – 23% and 22%).

Accounts receivable from the Fund's largest client was approximately 3% of the total accounts receivable as at June 30, 2010 (December 31, 2009 – 1%). The Fund's top 10 clients accounted for approximately 28% of the Fund's total accounts receivable as at June 30, 2010 (December 31, 2009 – 19%).

13. SEGMENTED INFORMATION

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

	Three Months Ended June 30		Three Months Ended June 30	
	2010	2009	2010	2009
Revenue:				
Canada	$ 78,781	$ 78,758	$ 155,295	$ 154,378
United States	4,888	6,145	9,799	12,281
	$ 83,669	$ 84,903	$ 165,094	$ 166,659

	June 30, 2010	December 31, 2009
Assets:		
Canada	$ 638,330	$ 642,516
United States	6,650	6,850
Liabilities:		
Canada	$ 296,063	$ 294,119
United States	2,359	2,902

14. COMPARATIVE FIGURES

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

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.

This Management's Discussion and Analysis ("MD&A") covers the three and six months ended June 30, 2010 and should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements of the Fund and notes thereto for the three and six months ended June 30, 2010 as well as the MD&A, and the Audited Consolidated Financial Statements and notes thereto contained in the Fund's Annual Report for the year ended December 31, 2009.

All financial information is presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

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

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

This MD&A is in all material respects in accordance with the recommendations provided in CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosur*e and the CICA's publication *Improved Communication with Non-GAAP Financial Measures: General Principles and Guidance for Reporting EBITDA and Free Cash Flow*.

FORMATION AND OWNERSHIP STRUCTURE OF THE FUND

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of Ontario. It indirectly owns 42,482,983 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 89.0% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership, HRCO Inc. and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 11.0% non-controlling interest in MS Group LP is held through Class B LP units of the limited partnership (the "Class B LP Units") and an equal number of Special Voting Units of the Fund, which together are exchangeable into Units. Management employees and former owners of the predecessors of the Morneau Sobeco Operating Entities ("Management Securityholders") hold this non-controlling interest.

As at August 10, 2010, 42,501,302 Units and 5,242,513 Special Voting Units of the Fund were issued and outstanding, and 5,242,513 MS Group LP Class B LP Units were issued and outstanding.

BUSINESS OVERVIEW

Morneau Sobeco Income Fund is the largest Canadian-owned firm providing human resource consulting and outsourcing services. The firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees. With approximately 2,400 employees in offices across North America, the Fund offers its services to over 8,000 organizations in Canada, the United States and around the globe directly and through our distribution channel partners.

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

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

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

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services. The remaining operating expenses include occupancy costs, technology costs (equipment leases, telecommunications and software), non-recoverable client service costs (such as printing, travel and third-party professional services), training, marketing, office costs, professional services and insurance.

SUMMARY AND OUTLOOK

For the three and six months ended June 30, 2010, revenue was $83.7 million and $165.1 million, respectively, compared to $84.9 million and $166.7 million in the same periods of 2009. Standardized EBITDA for the three and six months ended June 30, 2010 was $16.0 million and $29.9 million respectively, compared to $16.0 million and $28.3 million in the same periods of 2009. Standardized EBITDA margin for the three ended June 30, 2010 increased by 0.4% to 19.2%, and for the six months here-ended increased 1.1% to 18.1%. Standardized EBITDA per Unit (basis) for the three and six months ended June 30, 2010 were $0.34 and $0.63 respectively, which are comparable to the same periods of 2009.

The modest decline in revenue for the year to date was the result of a revenue decline in the EAP business, which experienced a lagging impact of the global recession. As EAP sales patterns are returning to 2008 levels and employment data continues to improve, we expect EAP revenue growth to return to normal levels in future periods. We have continued to see growth in our outsourcing, pension and benefits consulting, and health management practices through 2010. Overall, as we look ahead to fostering our new and existing client relationships and progressing from the implementation to the servicing components of significant outsourcing engagements, we remain positive about our prospects for the remainder of 2010 and onwards.

The Fund announced plans to convert from an income trust to a corporation effective January 1, 2011. The conversion is being made in response to the legislative changes enacted by the Federal government that will apply a tax at the income trust level on certain income of the Fund commencing January 1, 2011. The current monthly distribution level of $0.07871 per unit (or $0.94 per unit annualized) is expected to remain unchanged for the balance of 2010. Starting in January 2011, the monthly dividend level is expected to be $0.065 per share (or $0.78 per share annualized) with a targeted payout ratio of 65% to 80% of cash flow. The dividend represents a 10.6% increase to the current distribution on an after tax basis for unitholders taxable at the highest marginal tax rate. This dividend policy will facilitate the reduction of debt, while providing investors with an attractive yield. Going forward, our intention is to continue to reward our investors with dividends in line with business performance. A special meeting of unitholders is scheduled for November 29, 2010 to obtain unitholder approval of the reorganization. A Notice of Meeting and Management Circular will be sent to all unitholders of record at least 21 days prior to the meeting date.

The foregoing dividend policy will be subject to the discretion of the board of directors of the company and may vary depending on, among other things, the company's operating cash flow, financial requirements, limitations and restrictions in credit facilities, the satisfaction of solvency tests imposed by the corporate laws for the declaration of dividends and other conditions existing at such future time.

DISTRIBUTIONS TO UNITHOLDERS

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

Monthly distributions were $0.07871 per unit in the second quarter of 2010.

The following table presents excess (shortfall) cash flow from operating activities and net income over distributions to Unitholders for the three and six months ended June 30, 2010 and 2009 and for the years ended December 31, 2009 and 2008.

(In thousands of dollars)	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**	**Year Ended December 31, 2009**	**Year Ended December 31, 2008**
Cash flow from operating activities	$ 1,208	$ 1,583	$ 7,493	$ 9,652	$ 48,955	$ 35,295
Net income	6,517	3,288	10,594	2,758	10,826	8,796
Distributions to Unitholders, including Class B LP Units	11,274	11,234	22,552	21,458	43,902	32,718
(Shortfall) excess of cash flow from operating activities over distributions	(10,066)	(9,651)	(15,059)	(11,806)	5,053	2,577
(Shortfall) of net income from operating activities over distributions	(4,757)	(7,946)	(11,958)	(18,700)	(33,076)	(23,922)

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

The shortfall of cash flow from operating activities over distributions for the three and six months ended June 30, 2010 is the result of normal seasonal fluctuations in working capital during the first half of each year, and the annual payment of employee bonuses which are paid in the first half of each year. We believe that based on our current budget and past history, our cash flow from operating activities will exceed our distributions on a year to date basis in future quarters.

The Standardized Distributable Cash Payout Ratio was 122.5% on a twelve-month rolling basis ending June 30, 2010 compared to 140.9% for the same period in 2009. The Adjusted Consolidated Distributable Cash Payout Ratio for the three and six months ended June 30, 2010 was 96.0% and 103.8% compared to 98.4% and 104.2% for the same period in 2009. On a twelve-month rolling basis ended June 30, 2010, the Adjusted Consolidated Distributable Cash Payout Ratio was 98.3% compared to 87.3% for the same period in 2009. The higher Standardized Distributable Cash Payout and Adjusted Consolidated Distributable Cash Payout ratios on a twelve-month rolling basis ended June 30, 2010 reflect increased distribution payments from the issuance of additional Units on March 24, 2009.

ANALYSIS OF 2010 SECOND QUARTER OPERATING RESULTS

Results of Operations Selected Unaudited Consolidated Financial Information *(In thousands of dollars except per unit amounts)*	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2010	**2009**	**2010**	**2009**
Revenue	**$ 83,669**	$ 84,903	**$165,094**	$166,659
Deduct:				
Salary, benefit and contractor expenses	**53,718**	55,174	**107,426**	109,312
Other operating expenses	**13,928**	13,742	**27,797**	29,024
Interest expense	**2,601**	2,997	**5,113**	7,960
Amortization of capital and intangible assets	**6,768**	11,472	**14,647**	22,821
Income taxes (recovery)	**(670)**	(2,208)	**(1,807)**	(5,571)
Non-controlling interest	**807**	438	**1,324**	355
Net income for the period	**$ 6,517**	3,288	**10,594**	2,758
Add (deduct):				
Interest expense	**2,601**	2,997	**5,113**	7,960
Amortization of capital and intangible assets	**6,768**	11,472	**14,647**	22,821
Income taxes (recovery)	**(670)**	(2,208)	**(1,807)**	(5,571)
Non-controlling interest	**807**	438	**1,324**	355
Standardized EBITDA[1]	**$ 16,023**	$ 15,987	**$ 29,871**	$ 28,323
Standardized EBITDA margin	**19.2%**	18.8%	**18.1%**	17.0%
Cash from operating activities	**$ 1,208**	$ 1,583	**$ 7,493**	$ 9,652
Deduct: Capital expenditures [7]	**2,445**	1,532	**4,069**	3,009
Consolidated Distributable Cash [2]	**(1,237)**	51	**3,424**	6,643
Deduct: Consolidated Distributable Cash available to non-controlling interest	**(137)**	6	**385**	902
Standardized Distributable Cash (available for Unitholders) [3]	**$ (1,100)**	$ 45	**$ 3,039**	$5,741
Consolidated Distributable Cash [2]	**$ (1,237)**	$ 51	**$ 3,424**	$ 6,643
Add: Changes in Non-cash operating working capital	**12,975**	11,365	**18,307**	13,952
Adjusted Consolidated Distributable Cash [4]	**$ 11,738**	$ 11,416	**$ 21,731**	$ 20,595
Net income per Unit (basic)	**$0.15**	$0.08	**$0.25**	$0. 07
Net income per Unit (diluted)	**$0.15**	$0.08	**$0.25**	$0.07
Standardized EBITDA per Unit (basic)	**$0.34**	$0.34	**$0.63**	$0.63
Standardized Distributable Cash per Unit (basic)	**$(0.03)**	$0.00	**$0.07**	$0.15
Adjusted Consolidated Distributable Cash per Unit (basic)	**$0.25**	$0.24	**$0.46**	$0.46
Standardized Distributions declared per Unit (basic)	**$0.24**	$0.24	**$0.47**	$0.47
Standardized Distributable Cash Payout Ratio [5]	**NM**	NM	**659.0%**	327.4%
Adjusted Consolidated Distributable Cash Payout Ratio [6]	**96.0%**	98.4%	**103.8%**	104.2%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	**122.5%**	140.9%	**122.5%**	140.9%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	**98.3%**	87.3%	**98.3%**	87.3%

Footnotes:

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

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

(3) "Standardized Distributable Cash" is defined as cash from operating activities, including the effects of changes in non-cash operating working capital, less capital capital expenditures and Consolidated Distributable Cash available to non-controlling interest. The ratio is not presented for the three months ended June 30, 2010 and June 30, 2009 since it is not meaningful when negative or close to break-even.

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

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

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

(7) "Capital Expenditures" excludes additions to intangible assets acquired through business acquisition.

ANALYSIS OF 2010 SECOND QUARTER RESULTS

Revenue

Revenue for the three months ended June 30, 2010 remained comparable to the same period in 2009, decreasing by $1.2 million, or 1.4%, to $83.7 million from $84.9 million. Declines in the EAP and health management practices were largely countered with continued growth in the Fund's pension and benefits consulting and outsourcing practices, resulting from new business relationships, increased mandates from existing clients, and commencement of the service component for several large outsourcing projects.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the three months ended June 30, 2010 remained comparable to the same period in 2009, decreasing by $1.5 million, or 2.7%, to $53.7 million from $55.2 million. This decrease was primarily attributable to decreased variable compensation expenses, which were partially offset by general merit increases.

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2010 remained comparable to the same period in 2009, increasing by $0.2 million, or 1.5%, to $13.9 million from $13.7 million for the same period in 2009. This change was primarily due to a decreased foreign exchange gain of $0.8 million, that was partially offset by decreased capital expense of $0.7 million due to a one-time unfavorable assessment in 2009.

Interest Expense

Interest expense for the three months ended June 30, 2010 decreased by $0.4 million to $2.6 million compared to $3.0 million for the same period in 2009. The decrease was primarily attributable to lower accretion expense of $0.5 million due to the repayment of the $75 million promissory note during the latter part of the second quarter in 2009.

Amortization of Capital and Intangible Assets

Amortization for the three months ended June 30, 2010 decreased by $4.7 million to $6.8 million compared to $11.5 million for the same period in 2009. This change was primarily the result of lower amortization expense on intangible assets acquired through the Shepell•fgi acquisition that became fully amortized prior to the start of the current quarter.

Income Tax Recovery

Income tax recovery for the three months ended June 30, 2010 decreased by $1.5 million to $0.7 million compared to $2.2 million for the same period in 2009. This decrease was primarily attributable to higher income in taxable subsidiaries during the quarter as well as changes in future income tax assets and liabilities resulting from the re-scheduling of temporary differences and changes to enacted tax rates.

Net Income

As a result of the changes noted above, the net income for the three months ended June 30, 2010 increased by $3.2 million to $6.5 million compared to the net income of $3.3 million for the same period in 2009.

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

Standardized EBITDA

Standardized EBITDA for the three months ended June 30, 2010 remained comparable to the same period of 2009, at $16.0 million. This was primarily due to decreased salary, benefit and contractor expenses and other operating expenses of $1.2 million that was met by a corresponding change in revenue of $1.2 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended June 30, 2010 decreased by $1.1 million to $(1.1) million, compared to breakeven for the same period in 2009, which was primarily due to increased capital expenditures of $0.9 million and decreased cash from operating activities of $0.4 million.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the three months ended June 30, 2010 increased by $0.3 million to $11.7 million compared to $11.4 million for the same period in 2009. The increase was primarily due to an increased add-back of the change in the fair value of foreign exchange contracts of $1.6 million, that was partially offset by increased capital expenditures of $0.9 million mainly on leasehold improvements related to office consolidations and expansions and technology spending, and decreased current income taxes of $0.2 million.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2010 AND 2009 RESULTS

Revenue

Revenue for the six months ended June 30, 2010 decreased by $1.6 million, or 0.9%, to $165.1 million compared to $166.7 million for the same period in 2009. Declines in the EAP practice were largely offset by growth in the pension consulting, outsourcing, and health management practices resulting from new business partnerships, increased mandates from existing clients, and commencement of the service component or the achievement of significant milestones for several large outsourcing projects.

Salary, Benefit and Contractor Expenses

Salary, benefit and contractor expenses for the six months ended June 30, 2010 decreased by $1.9 million, or 1.7%, to $107.4 million compared to $109.3 million for the same period in 2009. The decrease was primarily attributable to decreased variable compensation expenses, which were partially offset by general merit increases.

Other Operating Expenses

Other operating expenses for the six months ended June 30, 2010 decreased by $1.2 million or 4.1%, to $27.8 million compared to $29.0 million for the same period in 2009. The decrease was mainly attributable to decreased capital tax expense of $0.8 million due to a one-time unfavorable assessment in 2009, decreased variable operating costs of $0.6 million, and decreased rent and occupancy costs of $0.4 million. This was partially offset by a decreased foreign exchange gain of $0.5 million.

Interest Expense

Interest expense for the six months ended June 30, 2010 decreased by $2.9 million to $5.1 million compared to $8.0 million for the same period in 2009. The decrease was due to lower accretion interest of $3.1 million on the $75 million promissory note issued as part of the Shepell•fgi acquisition and repaid during the second quarter of 2009, partially offset by increased interest expense of $0.2 million related to the revolving loan and bank indebtedness.

Amortization of Capital and Intangible Assets

Amortization for the six months ended June 30, 2010 decreased by $8.2 million, or 36.0%, to $14.6 million compared to $22.8 million for the same period in 2009. The decrease was primarily attributable to lower amortization expenditure of $8.8 million relating to intangible assets acquired through the Shepell•fgi acquisition which became fully amortized during 2009. This was partially offset by increased amortization expense of $0.4 million related to the $1.5 million increased capital expenditures during the period compared to the same period in 2009.

Income Tax Recovery

Income tax recovery for the six months ended June 30, 2010 decreased by $3.8 million to $1.8 million compared to $5.6 million for the same period in 2009. The decrease was primarily attributable to higher income in taxable subsidiaries as well as changes in future income tax assets and liabilities resulting from the re-scheduling of temporary differences and changes to enacted tax rates.

Net Income

As a result of the changes noted above, the net income for the six months ended June 30, 2010 increased by $7.8 million to $10.6 million compared to the net income of $2.8 million for the same period in 2009.

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

Standardized EBITDA

Standardized EBITDA for the six months ended June 30, 2010 increased by $1.6 million to $29.9 million compared to $28.3 million for the same period in 2009. The increase was due to decreased salary, benefit, and contractor expenses and other operating expenses of $3.1 million that was partially offset by a decrease in revenue of $1.6 million.

Standardized Distributable Cash

Standardized Distributable Cash for the six months ended June 30, 2010 decreased by $2.7 million to $3.0 million compared to $5.7 million for the same period in 2009. This decrease was primarily due to decreased cash from operating activities of $2.2 million and increased capital expenditures (excluding those acquired through business acquisitions) of $1.1 million. This was offset by a $0.5 million reduction in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the six months ended June 30, 2010 increased by $1.1 million to $21.7 million compared to $20.6 million for the same period in 2009. The increase was primarily due to increased EBITDA of $1.6 million, and an increased add-back related to the non-cash change in fair value of foreign exchange contracts of $1.1 million. This was partially offset by increased capital expenditures (excluding those acquired through business acquisitions) of $1.1 million, and increased current income tax expense of $0.2 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 *(In thousands of dollars)*	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2010	**2009**	**2010**	**2009**
Cash provided by (used in):				
Operating activities	**$ 1,208**	$ 1,583	**$ 7,493**	$ 9,652
Investing activities	**(2,445)**	(1,314)	**(6,926)**	(2,791)
Financing activities	**(1,274)**	(4,465)	**(9,052)**	(13,164)
Decrease in cash	**$ (2,511)**	$ (4,196)	**$ (8,485)**	$ (6,303)

2010 Second Quarter Results

Cash from operating activities for the three months ended June 30, 2010 decreased by $0.4 million to $1.2 million compared to $1.6 million for the same period in 2009. This change was primarily attributable to increased net income of $3.2 million, offset by increased uses of cash from non-cash adjustments of $2.0 million, and from non-cash operating working capital of $1.6 million. The $2.0 million decrease in non-cash items is primarily represented by reduced amortization expense of $4.7 million and lower accretion interest of $0.5 million as described above. This change was partially offset by an increase in the add-back of the change in fair value of foreign exchange contracts of $1.6 million, lower future income taxes recovery of $1.3 million, and reduced non-controlling interest of $0.4 million.

Changes in non-cash operating working capital for the three months ended June 30, 2010 decreased by $1.6 million to a use of cash of $13.0 million compared to a use of cash of $11.4 million in the same period of 2009. This change was primarily due to the change in accounts payables and accrued liabilities of $2.0 million mainly due to changes in variable compensation-related expenses and the timing of suppliers' payments, a change in income taxes recoverable of $0.9 million, a decrease in deferred revenues due to the timing of customer billings of $0.6 million, and the deferral of implementation fees associated with outsourcing contracts of $0.5 million. This change was partially offset by a positive change in accounts receivables (including unbilled fees) of $2.6 million related to the timing of billings and collections.

Cash used in investing activities for the three months ended June 30, 2010 increased by $1.1 million to a cash outflow of $2.4 million compared to cash outflow of $1.3 million for the same period in 2009. This increase was primarily due to increased capital expenditures on technology spending of $0.6 million and leasehold improvements related to office consolidations and expansions of $0.4 million.

Cash used in financing activities for the three months ended June 30, 2010 decreased by $3.2 million to a use of cash of $1.3 million compared to a use of cash of $4.5 million for the same period in 2009. This change is primarily due to increased utilization of the line of credit used to manage the timing of our operating cash flow of $3.0 million.

Six Months Ended June 30, 2010 and 2009

Cash from operating activities for the six months ended June 30, 2010 decreased by $2.2 million to $7.5 million compared to $9.7 million for the same period in 2009. This change was primarily attributable to increased net income of $7.8 million, that was offset by a decreased source of cash from non-cash adjustments of $5.6 million, and an increased use of cash of $4.4 million from non-cash operating working capital. The change in non-cash adjustments is primarily represented by reduced amortization expense of $8.1 million and lower accretion interest of $3.1 million as described above. These reductions were primarily offset by reduced future income taxes recovery of $3.6 million, increased add-back of $1.1 million related to the change in fair value of the foreign exchange contracts, and lower non-controlling interest of $1.0 million.

Changes in non-cash operating working capital for the six months ended June 30, 2010 decreased by $4.4 million to a use of cash of $18.3 million compared to a use of cash of $14.0 million for the same period of 2009. This change is primarily due to a change in accounts payables and accrued liabilities of $3.0 million mainly due to changes in variable compensation-related expenses and the timing of suppliers' payments, and the deferral of implementation costs associated with outsourcing contracts of $1.7 million.

Cash used in investing activities for the six months ended June 30, 2010 increased by $4.1 million to a use of cash of $6.9 million compared to a use of cash of $2.8 million for the same period in 2009. This increase was primarily attributable to the payment of the second instalment related to the 2008 business acquisition of Leong & Associates of $2.5 million, and increased capital expenditures $1.5 million, of which $0.7 million was attributable to leasehold improvements related to office consolidations and expansions, $0.6 million related to increased technology spending, and $0.4 million attributed to intangibles acquired through business acquisitions.

Cash used in financing activities for the six months ended June 30, 2010 decreased by $4.1 million to a use of cash of $9.1 million compared to a use of cash of $13.2 million for the same period in 2009. This decrease was primarily attributable to increased utilization of the operating line of credit of $5.5 million used to manage the timing of our operating cash flow, partially offset by increased distribution payments of $1.6 million as a result of Units issued in March 2009 in conjunction with the Shepell•fgi acquisition.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), facility improvement and office furniture. Additional capital expenditure requirements may result from significant business expansion. Such amounts are expected to be funded from our operating cash flow. The increase in capital expenditures (excluding those acquired through business acquisitions) for the three and six months ended June 30, 2010 of $0.5 million and $1.1 million respectively were primarily the result of increased leasehold improvements on office consolidations and expansions and an increase in technology spending.

Contractual Obligations

Commitments

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

Summary of Contractual Obligations

(In thousands of dollars)

	Total	**2010 to 2011**	**2012 to 2013**	**Beyond 2013**
Term loan	$ 160,000	$ -	$ 160,000	$ -
Revolving loan	25,000	-	25,000	-
Promissory notes	4,500	4,500	-	-
Operating leases	79,360	15,113	15,861	48,386
Total	$ 268,860	$ 19,613	$ 200,861	$ 48,386

The Fund is party to various subleases to which the Fund would be liable for the rental payment in the case of a default by the subtenants. The minimal payments related to these premises have been included above. The terms of the subleases extend through July 2022 and the aggregate sublease income on these subleases is $21,905. The Fund considers the risk of default by the subtenants to be low therefore no accrual has been set up for the guarantee.

Contingent Consideration

The purchase price for Leong & Associates is contingent on business results and is expected to be approximately $7.6 million payable in three instalments. The first instalment of $2.6 million was satisfied on closing through cash and equity consideration, and the second instalment of $2.5 million was satisfied in January 2010. The third instalment and final instalment, which is subject to revenue adjustments plus interest calculated at annual rates of 3.27% and 3.87%, will be settled on April 1, 2011.

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

Capital Resources

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

Capital Resources *(In thousands of dollars)*	**As at June 30, 2010**	**As at December 31, 2009**
Bank indebtedness	$ 6,879	$ -
Revolving loan	$ 25,000	$ 11,500
Long-term debt, net of unamortized debt issue cost	$ 159,121	$ 158,887
Promissory notes	$ 4,500	$ 4,306
Non-controlling interests	$ 43,572	$ 46,137
Unitholders' equity	$ 346,558	$ 352,345

As at June 30, 2010, the Fund's working capital (current assets minus current liabilities, excluding the current portion of promissory note and future considerations related to acquisition), was approximately $ 17.0 million compared to $22.0 million as at December 31, 2009.

In 2008, as part of the Shepell•fgi acquisition, the Fund entered into a credit agreement with a syndicate of Canadian chartered banks for a period of four years maturing on June 1, 2012. On April 15, 2010, the credit available under the revolving facility was amended for an increase of $25 million to $40 million; the terms of the facility remain consistent to those of the initial agreement.

Under the agreement, the following credit facilities are available:

- $160 million senior secured term loan ("term loan").
- $40 million senior secured revolving facility ("revolving loan").
- $5 million swing line.

The interest rates for the facilities are floating, based on a margin over certain reference rates of interest. The applicable margin may vary up and down depending on the ratio of the Fund's consolidated debt to Adjusted EBITDA as calculated in the new credit agreement. EBITDA is defined as net income before interest expense, income taxes (recovery), depreciation, amortization and non-controlling interest. Adjusted EBITDA is defined as the rolling twelve months earnings before interest, taxes, depreciation and amortization, and other non-recurring items of the Fund.

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

(i) Ratio of debt to Adjusted EBITDA shall commence at 3.5:1.0 for the period up to December 30, 2009 and declining to 3.0:1.0 on December 31, 2009 and 2.5:1.0 on June 30, 2011 and thereafter.

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

The Fund complied with all the required financial covenants and the ratios as at June 30, 2010 were 2.9:1.0 and 6.6:1.0 respectively.

Promissory notes

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

SELECTED BALANCE SHEET DATA

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

Selected Balance Sheet Data *(in thousands of dollars)*	**As at June 30, 2010**	**As at December 31, 2009**
Current assets	$ 82,871	$ 78,174
Other long-term assets	$ 562,109	$ 571,192
Current liabilities	$ 70,379	$ 62,956
Long-term financial liabilities (1)	$ 159,121	$ 158,887

(1) Comprised of long-term debt and promissory note.

Current Assets

Current assets as at June 30, 2010 increased by $4.7 million to $82.9 million from $78.2 million as at December 31, 2009. The increase was primarily due to an increase in accounts receivable net of unbilled fees of $5.1 million as a result of the timing of billings and collections.

Other Long-Term Assets

Other long-term assets as at June 30, 2010 decreased by $9.1 million to $562.1 million from $571.2 million as at December 31, 2009. The decrease was primarily due to the amortization of capital and intangible assets of $14.6 million, offset by capital expenditures of $4.5 million and increased deferred implementation costs associated with outsourcing contracts of $1.4 million.

Current Liabilities

Current liabilities as at June 30, 2010 increased by $7.4 million to $70.4 million from $63.0 million as at December 31, 2009. The increase was primarily the result of increased borrowings on the revolving credit facility of $13.5 million and increased utilization of the Fund's line of credit of $6.9 million to manage the operational cash flows, as well as increased deferred revenues of $0.7 million due to the timing of customer billings. This increase was partially offset by a decrease in accounts payable and accrued liabilities of $11.4 million mainly due to the payment of year-end bonuses and severance, as well as the timing of suppliers' payments, and the payment of the second instalment related to the Leong & Associates acquisition of $2.5 million during the first quarter of 2010.

Long-Term Financial Liabilities

Long-term financial liabilities as at June 30, 2010 remained comparable to the comparative period, increasing by $0.2 million to $159.1 million from $158.9 million as at December 31, 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

We earn fee-for-service revenue based on hourly rates and the time spent delivering those services. We also earn contracted revenue based on negotiated fixed amounts or on a formula tied to the nature of the service, rather than the time spent. Revenue is recognized in the period that the service is rendered, irrespective of when it is invoiced. EAP revenue is recognized through a combination of the minimum contracted amount and incremental usage above the minimum thresholds. The minimum contracted amount is recognized on a straight-line basis over the term of the contract. Incremental usage is recognized when the minimum usage threshold is exceeded up to a cap where applicable. Unbilled fees are recorded at the lower of unbilled hours worked at standard billing rates and the amount which we estimate can be recovered upon invoicing. Expenses are recognized as incurred. Losses on fixed-fee contracts are recognized during the period in which the loss becomes probable. Billings in excess of revenue are recorded as a deferred revenue liability until services are rendered. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third-party professional services. Reimbursements are accounted for as a reduction to expenses. Outsourcing engagements typically involve both an implementation and administration component; unless it can be determined that the implementation phase is independent of the administrative one, revenues (and related expenses) are deferred and recognized over the term of the service contract period.

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

Intangible Assets and Goodwill

Intangible assets consist of trade names, customer relationships, purchased and internally-developed software, proprietary software, and customer contracts. Intangible assets acquired through acquisitions or business combinations are initially recognized at fair value based on an allocation of the purchase price. Internally-developed proprietary software for internal use is recognized at the aggregate fair value of all eligible development costs, determined in accordance with Section 3064, *Goodwill and Intangible Assets*. Eligible expenditures capitalized as part of proprietary software developed for internal use include external direct costs of materials and services consumed in development, and payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent that their time was spent directly on the project). All costs incurred in the preliminary research stage of the projects are expensed as incurred. Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, or on a declining balance basis for purchased software. Intangible assets with an indefinite life are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate there may be an impairment by comparing the estimated discounted future net cash flows from the asset to its carrying amount.

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

Allowance for Doubtful Accounts

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

Litigation and Claims

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

Future Income Taxes

The Fund uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. A valuation allowance is recorded against a future income tax asset if it is not anticipated that the asset will be realized in the foreseeable future. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Financial Instruments

Financial assets and financial liabilities are initially measured at fair value, defined as the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs. Subsequent measurement of the Fund's financial assets and liabilities is dependent on their classification as held for trading, loans and receivables, other financial liabilities, or derivative instruments.

Held for trading financial assets and liabilities are measured at fair value as at the date of the consolidated balance sheet, and any unrealized gains or losses from market fluctuations are included in the consolidated statement of income.

Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

Derivative financial instruments are used by the Fund in the management of its interest rate risk exposure on debt financing and foreign exchange risk arising due to fluctuations in the United States dollar. Derivatives that have been designated and function effectively as a hedge are accounted for using hedge accounting principles. The effective portions of changes in fair value of derivatives that qualify for hedge accounting are recorded in other comprehensive income. Any ineffective portions of changes in the fair value are recognized in net income in the period in which the change occurred. If the hedging relationship ceases to be effective, the cumulative change in the fair value of the interest-rate swap are recognized into income beginning in the period in which the change occurs. Derivatives that do not qualify for hedge accounting are recorded on the consolidated balance sheet at fair value with changes in fair value recorded as income or expense in the consolidated statement of income.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significant inputs used in determining the fair values, in accordance with the amendment to CICA Handbook Section 3862 in June 2009:

(i) Level 1 - Inputs unadjusted quoted prices of identical instruments in active markets

(ii) Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

(iii) Level 3 – One or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement.

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

New Accounting Policies

No new accounting policies were adopted by the Fund during the quarter.

Future Accounting Changes

1. *Business Combinations* - The CICA issued new Handbook Section 1582, *Business Combinations*, in January 2009, to replace the former Section 1581, *Business Combinations*, and representing the Canadian equivalent to International Financial Reporting Standards 3, *Business Combinations*. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidelines on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assume in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting and such costs will be expensed as incurred, unless they constitute the costs associated with debt or equity issuance.

2. *Consolidated Financial Statements and Non-Controlling Interests* - Also in January, 2009, the CICA issued new Handbook Sections 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, to replace Section 1600, *Consolidated Financial Statements*. These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements. The new Sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of unitholders' equity. Under Section 1602, consolidated net income and other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests.

3. *Multiple Deliverable Revenue Arrangements* – Abstract EIC-175, *Multiple Deliverable Revenue Arrangements* was issued by the CICA to amend EIC-142, *Revenue Arrangements with Multiple Deliverables*. This new Abstract requires a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method and prohibits the use of the residual method. This new Abstract also allows use of best estimate of selling price in the absence of vendor-specific objective evidence, or other third party evidence of selling price and requires additional qualitative and quantitative disclosures.

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements for periods beginning on January 1, 2011. The Fund's established project plan for implementing IFRS consists of four phases (initial scoping and planning, detailed assessment, design, and implementation) and is designed to address:

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

As at June 30, 2010, the Fund has completed the initial scoping and planning phase of the project plan, which involved the identification of the key differences between IFRS and Canadian GAAP, and an assessment of the exemptions and elections available upon transition under IFRS 1, *First-time Adoption of International Reporting Standards*. The Fund's progress-to-date in the detailed assessment phase of the project plan has identified the following key differences between current accounting policies and those required or expected to be required in preparing IFRS-compliance financial statements:

First-Time Adoption of IFRS (IFRS 1)

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines the mandatory and option exemptions and elections available, to the general requirement for full retrospective application of IFRS. The most significant mandatory and optional exemptions and elections relevant to the Fund, and their anticipated impact are:

Area of IFRS	Summary of Exemption Available	Anticipated Impact
Business Combinations	The Fund may elect, on transition to IFRS, not to retrospectively apply IFRS 3 "Business Combinations" to past business combinations. The Fund, however, would remain privy to retrospectively apply certain guidelines within IFRS 3, to exclude from the purchase equation acquisition-related costs and to include contingent consideration.	The Fund will elect to apply this exemption and will not restate any business combinations prior to January 1, 2010. The transitional adjustment expected to result from the exclusion of acquisition-related costs and addition of contingent consideration will result in a charge to opening retained earnings as at January 1, 2010.
Employee Benefits	The Fund may elect, on transition to IFRS, not to retrospectively apply IAS 19 "Employee Benefits" such that the Fund would be required to split the cumulative actuarial gains and losses from the inception of the benefits plan until January 1, 2010 into a recognized and unrecognized portion.	The Fund will elect not to retrospectively apply IAS 19, and will recognize the cumulative actuarial gain on the benefits plan as at January 1, 2010. This election is expected to result in an increase to opening retained earnings as at January 1, 2010.
Designation of previously recognized financial instruments	The Fund is required to re-designate and assess effectiveness of hedging relationships that were established prior to transition to IFRS on January 1, 2010. The ineffective portion as at the date of transition is recognized as the transitional adjustment.	The Fund has completed the documentation required and re-affirmed the hedging relationships existing as at the transition date January 1, 2010. A transitional charge to opening retained earnings, representing the ineffective portion of the hedge at that date, is expected.

The following electives, while applicable to the Fund, are expected to have minimal or no financial reporting impact on the Fund:

Area of IFRS	Summary of Exemption Available
Non-Controlling Interests	The Fund is required to prospectively apply certain requirements of IAS 27 "Consolidated and Separate Financial Statements" from the date of transition January 1, 2010, including the pro-rata allocation of total comprehensive income to the partners and the non-controlling interests. The Fund does not expect any impact on its financial results as a result of the application of this standard, but will result in the classification of non-controlling interest as Unitholder Equity per the financial statements.
Property Plant and Equipment	The Fund may elect, on transition to IFRS, to revalue, as its new cost basis for property, plant, and equipment, its fair value as at January 1, 2010. This exemption can be applied on an asset by asset basis. The Fund does not plan to revalue any of its capital and intangible assets at January 1, 2010, thereby resulting in no financial impact to the Fund.

The expectations outlined above represent the Fund's preliminary assessments and should not be construed to be final, as they are subject to change following review by the Fund's external advisors.

Key Accounting Differences

Set out below are selected key areas of accounting differences where changes in accounting policies upon conversion to IFRS may impact the Fund's consolidated financial statements. This does not represent a comprehensive list of changes that will result from the transition to IFRS; rather, this listing highlights those areas of accounting differences the Fund current believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be finalized where choices related to accounting policies are available.

Relevant IFRS	Summary of Difference, and Anticipated Financial Statements Impact
IAS 1: Presentation of Financial Statements	IFRS requires significantly more extensive disclosure than existing Canadian GAAP. Amongst those differences include, but are not limited to, the classification of expenditures by function or nature and the presentation of non-controlling interest as a component of Unitholders' Equity. The Fund will address these presentation differences as it prepares its draft IFRS financial statements throughout 2010.
IFRS 3: Business Combinations	While both IFRS and GAAP follow a similar method of accounting (i.e. acquisition method), the most significant differences as they relate to the Fund include: • Exclusion of acquisition-related costs (including legal, tax advisory and third party valuation fees) from the purchase equation which would correspond to a decrease in goodwill values; • Inclusion of contingent consideration at its fair value on the date of acquisition, with subsequent changes recognized through comprehensive income; • On transactions which include the issuance of Units as consideration, the fair value of those Units will be determined on the date of acquisition under IFRS. As detailed above, the application of this Standard will result in an opening adjustment to retained earnings as at January 1, 2010. The Fund will address these differences on subsequent acquisitions as appropriate.

IAS 36: Impairment of Assets	IFRS requires a one-step approach to testing for and measurement impairment of all assets at the cash generating unit ("CGU") level. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment is determined by comparing asset carrying values directly to the higher of fair value less costs to sell and value in use. Any impairment is first applied to goodwill and then prorated to other assets in the CGU. Impairment charges can be reversed in subsequent periods if there is a change in estimates that resulted in the initial impairment charge. The Fund has not yet completed its assessment of the impact of accounting policy change, but notes that any potential differences resulting from this assessment may result in a change in net income in future periods.
IAS 32: Financial Instruments – Presentation	IFRS requires that financial instruments which give the holder the right to put the instrument back to the issuer for cash should be classified as a financial liability, unless certain criteria are met to allow for classification as equity. Given the Fund Units are redeemable at the option of the holder and that there is a mandatory requirement to distribution taxable income under the Declaration of Trust, the Fund may be required to present its equity as a liability under IFRS. The Fund continues to analyze the impact of this standard on its classification as equity.
IAS 16: Property, Plant, and Equipment	IFRS requires the componentization of assets, where all significant components are recognized and depreciated separately. This standard also allows for the periodic revaluation of property, equipment, and leaseholds. The Fund anticipates that no further segregation of its assets into smaller components is required and the cost method will continue to be used to value its assets; therefore, the impact of this standard on the Fund (i.e. depreciation expense) is expected to be minimal.
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	IFRS requires the recognition of a provision in instances where a liability is "more likely than not" to exist, which can be dictated by the past and confirmed in the future. As this is a lower threshold than GAAP, liabilities will increase as provisions may be recorded earlier or where they may not have been recorded at all. The Fund continues to analyze the impact of this standard on its financial statement.
IAS 12: Income Taxes	While IAS 12 is similar to GAAP, any material adjustments to balances resulting from the adoption of IFRS would have a corresponding effect on future income tax balances. The Fund will continue to monitor the tax implications of the transition to IFRS.

The Fund's intentions are to finalize the impact of the key differences identified to date in the third quarter of 2010 and to commence the third phase of the project plan. During the design phase, the Fund will perform the following:

- Designing and implementing business and accounting processes that will facilitate the collection of data required in a timely and accurate manner
- Designing and implementing internal controls required by the new business and accounting processes

The Fund anticipates the completion of this phase during the latter part of 2010.

The fourth and final phase, implementation, will commence on January 1, 2011 with the adoption of IFRS. All new policies, processes, and controls will be implemented and monitored to ensure efficient and effective delivery.

At June 30, 2010, the Fund cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Fund's most recent assumptions and expectations. Circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter our above assumptions and expectations. These disclosures reflect the Fund's expectations based on information available at June 30, 2010. Changes in IFRS standards or circumstances relating to the Fund may cause the Fund to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

RISKS AND UNCERTAINTIES

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

Risk Related to the Business of Morneau Sobeco

Ability to Maintain Profitability and Manage Growth

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

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

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

Reliance on Information Systems and Technology

Information systems are an integral part of Morneau Sobeco’s business and the products and services offered to its clients. Morneau Sobeco relies on systems to maintain accurate records and to carry out required administrative functions in accordance with the terms of its contractual obligations to its clients. In order to maintain the level of security, service and reliability that clients require, Morneau Sobeco may be required to make significant investments in the online means of delivering services. The adoption of additional laws or regulations with respect to the Internet may impede the efficiency of the Internet as a medium of exchange of information and decrease the demand for Morneau Sobeco’s services.

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

Reliance on Key Professionals

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

Reputational Risk

Morneau Sobeco depends to a large extent upon its relationships with its clients and its reputation for high-quality services. As a result, the impact of client dissatisfaction with Morneau Sobeco's services or products may be more damaging in Morneau Sobeco's business than in other businesses. Moreover, if the firm fails to meet its contractual or regulatory obligations, Morneau Sobeco could be subject to legal liability and a loss of client relationships.

Economic Conditions

An economic slowdown could cause a decline in demand for Morneau Sobeco's services. Growth in its clients' business may be affected by the economic slowdowns and could therefore potentially have an impact on the Fund's operating results. During an economic downturn, Morneau Sobeco clients and potential clients may reduce or delay services or projects, or defer contracts currently underway. This situation could also lead to greater delays and defaults in payments or debt collection, resulting in lower operating results. Because of lower revenue during an economic slowdown, competition may increase and prices may be reduced by certain competitors to maintain or expand their market share. Pricing and profitability could be adversely affected as a result.

Dependence on Key Clients

For both the three and six months ended June 30, 2010, Morneau Sobeco's largest client accounted for approximately 5% of the Fund's total revenue (for the three and six months ended June 30, 2009 - 5%) and the top 10 clients accounted for approximately 22% and 23% of the total revenue for the three and six months ended June 30, 2010 respectively (for the three and six months ended June 30, 2009 – 23% and 22%). As clients may terminate engagements with minimal notice, there can be no assurance that Morneau Sobeco will be able to retain relationships with its largest clients. Moreover, there can be no assurance that such clients will continue to use Morneau Sobeco's services in the future. Any negative change involving any of Morneau Sobeco's largest clients, including but not limited to a client's financial condition or desire to continue using the firm's services, could result in a significant reduction in revenue which could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Risk of Future Legal Proceedings

Morneau Sobeco may be threatened with, or may be named as a defendant in, or may become subject to, various legal proceedings in the ordinary course of conducting its business, including lawsuits based upon professional errors and omissions.

The pension and benefits consulting and outsourcing service involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding; a claim that inaccurate data was used, which could lead to an underestimation of plan liabilities; or a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, which could lead to overpayments to beneficiaries. The employee health and productivity services involve confidential counseling, occupational health activities and disability case management. Each of these activities could potentially put the Fund in conflict with its customers, their employees, or both. Possible legal proceedings could also result from matters such as an employee claiming for breach of confidence, failure to provide adequate counsel, or denial of benefits or employment as a result of Morneau Sobeco's actions.

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

Insurance

Morneau Sobeco believes that its professional errors and omissions insurance and director and officer liability insurance coverage address all material insurable risks, provides coverage that is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions. However, there can be no assurance that such insurance will continue to be offered on economically feasible terms, that all events that could give rise to a loss or liability are insurable, or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving Morneau Sobeco’s assets or operations.

Competition

Morneau Sobeco operates in a highly competitive North American market. As a result, Morneau Sobeco competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Sobeco competes. In addition, some of Morneau Sobeco's competitors have substantially more financial resources and/or financial flexibility than Morneau Sobeco. Further, Morneau Sobeco's business relies, in part, upon its ability to develop and implement technology solutions, in a cost effective manner that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. Morneau Sobeco’s competitors may offer new technologies more efficiently or cost effectively than Morneau Sobeco. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Sobeco’s business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Relationship with Channel Partners

Morneau Sobeco markets its services directly to end-user employers as well as through certain channel partners, primarily insurance companies (many of which compete amongst themselves directly). There can be no assurance that Morneau Sobeco will be able to maintain its existing relationships with all these channel partners, which could have a material adverse effect on Morneau Sobeco’s business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Satisfactory Performance of Obligations

In its contracts with clients, Morneau Sobeco is sometimes committed to meeting identified service levels and/or timelines. If the service levels/timelines are not met, Morneau Sobeco may experience reduced revenues, incur significant additional costs or be held responsible for the costs incurred by the client for failure to meet the service level/timeline. Morneau Sobeco's success depends in large part upon whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Sobeco fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Sobeco. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Implications of Fixed-Price Contracts

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

Confidentiality of Client Information

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

Protection of Intellectual Property

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

Potential Undisclosed Liabilities Associated with Acquisition/Limited Indemnification

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

Indebtedness and Interest Rates

The ability of Morneau Sobeco to make distributions or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities. The degree to which MSGLP or Morneau Sobeco is leveraged could have important consequences to the Unitholders including: Morneau Sobeco's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Sobeco's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Sobeco to the risk of increased interest rates; and Morneau Sobeco may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of distributable cash to interest rate variations. Interest rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate of the Fund's total debt outstanding and related overall cost of borrowing.

The advance of the Credit Facilities has significantly increased the amount of Morneau Sobeco's debt compared to historical levels. The Credit Facilities contain numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Morneau Sobeco to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidated with another entity. In addition, the Credit Facilities contain a number of financial covenants that require Morneau Sobeco to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Credit Facilities could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by Morneau Sobeco and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facilities was to be accelerated, there

can be no assurance that the assets of Morneau Sobeco would be sufficient to repay in full that indebtedness. In addition, the Credit Facilities mature on June 1, 2012. There can be no assurance that future borrowings or equity financing will be available to the Fund or Morneau Sobeco or available on acceptable terms, in an amount sufficient to fund the Fund's or Morneau Sobeco's needs.

Foreign Exchange Risk

A portion of Morneau Sobeco's sales are in U.S. dollars and thus Morneau Sobeco is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. Morneau Sobeco has entered into a currency hedge swap agreement. The net revenue exposure after accounting for the hedge and related expenses denominated in U.S. dollars was $nil for the three months and six months ended June 30, 2010. An increase in foreign revenues would expose the Fund to fluctuations in exchange rates which may have a material adverse effect on Morneau Sobeco's business, financial condition, and operating results, and on the ability of the Fund to make distributions on the Units.

Risk Related to the Structure of the Fund

Income Tax Matters

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

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

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

As a result, the Fund has recognized a $2.7 million future income tax liability as at June 30, 2007 on temporary differences in the reported amounts for financial statement and tax purposes relating to intangible and capital assets. The Fund will be liable for income tax on its non-portfolio income at a rate that would apply to a corporation commencing January 1, 2011.

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

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

On December 4, 2008, the Department of Finance (Canada) announced an acceleration of the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the

maximum amount that could be issued by a SIFT under the safe harbour rule is 100% of its October 31, 2006 market capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subjected to the Normal Growth Guidelines).

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

Dependence on Morneau Sobeco Group LP and Its Subsidiaries

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

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

Although the Fund intends to distribute the interest received in respect of the Trust Notes (see Trust Notes) and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by MSGLP's businesses or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, will be entirely dependent upon the operations and assets of MSGLP (and its subsidiaries), and will be subject to various factors including each of its financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements. The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors (see Income Tax Matters).

Restrictions on Potential Growth

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

Nature of Units

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

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

Market Price of Units

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

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

Dilution of Existing Unitholders and MSGLP Unitholders

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

Distribution of Securities on Redemption or Termination of the Fund

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

Future Sales of Units by the Management Securityholders

The Management Securityholders hold all of the Class B LP Units, representing in aggregate 11.0% of the outstanding MSGLP Units which, pursuant to the Exchange Agreement, can be exchanged for Units at any time, subject to certain conditions. Certain of the Management Securityholders have also been granted certain registration rights by the Fund. See "Management Securityholders – Exchange Agreement. If the Management Securityholders sell a substantial number of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also contribute to a decline in the market price of the Units.

Restrictions on Certain Unitholders and Liquidity of Units

The Fund's Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning either more than 40% of the issued and outstanding Units and/or the Special Voting Units (on a non-diluted and fully diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including non-residents of Canada and U.S. persons, to acquire Units, to exercise their rights as Unitholders and to initiate and complete takeover bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Statutory Remedies

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

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

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

Quarter ended	June 30 2010	March 31 2010	December 31 2009	September 30 2009	June 30 2009	March 31 2009	December 31 2008	September 30 2008
Revenue	$83,669	$81,425	$83,316	$81,728	$84,903	$81,756	$82,298	$75,918
Net income (loss)	6,517	4, 076	4,169	3,900	3,288	(531)	3,001	557
Standardized EBITDA	16,023	13,848	15,739	17,253	15,987	12,335	17,301	13,933
Adjusted Standardized EBITDA	16,023	13,848	18,474	17,631	15,987	12,335	17,301	13,933
Standardized EBITDA margin	19.2%	17.0%	18.9%	21.1%	18.8%	15.1%	21.0%	18.4%
Adjusted Standardized EBITDA margin	19.2%	17.0%	22.2%	21.6%	18.8%	15.1%	21.0%	18.4%
Standardized Distributable Cash (1)	NM	4,128	14,365	15,154	45	5,697	16,079	3,345
Adjusted Consolidated Distributable Cash	11,738	9,992	12,396	11,662	11,416	9,179	14,931	11,133
Distributions declared	11,274	11,274	11,230	11,214	11,234	10,224	9,661	9,629
Net income (loss) per Unit (basic)	0.15	0.10	0.10	0.09	0.08	(0.02)	0.09	0.02
Net income (loss) per Unit (diluted)	0.15	0.10	0.10	0.09	0.08	(0.02)	0.09	0.02
Standardized EBITDA per Unit (basic)	0.34	0. 29	0.33	0.36	0.34	0.30	0.42	0.34
Adjusted Standardized EBITDA per Unit (basic)	0.34	0.29	0.39	0.37	0.34	0.30	0.42	0.34
Standardized Distributable Cash per Unit (basic) (1)	(0.03)	0.10	0.34	0.36	0.00	0.16	0.46	0.10
Adjusted Consolidated Distributable Cash per Unit (basic)	0.25	0.21	0.26	0.25	0.24	0.22	0.37	0.27
Distributions declared per Unit (basic)	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Standardized Distributable Cash Payout Ratio (basic) (2)	NM	242.0%	69.1%	65.4%	NM	156.0%	51.9%	248.6%
Adjusted Consolidated Distributable Cash Payout Ratio(3)	96.0%	112.8%	90.6%	96.2%	98.4%	111.4%	64.7%	86.5%
Twelve-month rolling Standardized Distributable Cash Payout Ratio (4)	122.5%	117.9%	109.6%	100.2%	140.9%	94.9%	101.0%	126.2%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	98.3%	98.9%	98.3%	89.7%	87.3%	81.8%	75.2%	81.8%
Total assets	$644,980	$644,776	$649,366	$667,708	$677,847	$682,664	$689,865	$683,273
Total long-term debt	$159,121	$159,004	$158,887	$158,769	$158,652	$135,535	135,418	135,280

(1) The Standardized Distributable Cash for the three months ended June 30, 2010, June 30, 2009, and March 31, 2009 were low primarily due to the payment of annual bonuses in the quarters.

(2) This ratio is not presented for the quarter ended June 30, 2010, and June 30, 2009 since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure or close to break even.

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

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

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at June 30, 2010.

Internal control over financial reporting

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at June 30, 2010.

No changes were made in the Fund's internal controls over financial reporting during the second quarter ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

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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.

HUMAN RESOURCE CONSULTING AND
ADMINISTRATIVE SOLUTIONS

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

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