

Morneau Sobeco Income Fund

2008 First Quarter Results



MORNEAU SOBECO

Fresh thinking.
Innovative solutions.

May 12, 2008

To Our Unitholders

Morneau Sobeco Income Fund (the "Fund") is pleased to present its financial results for the period ended March 31, 2008. These results reflect the solid performance of the Fund's operating business in the quarter. Our revenue growth was 8.4% for the period, and our EBITDA margin remained strong at 21.4%.

Revenue in the 2008 first quarter increased by $3 million to $39.1 million compared to $36.1 million for the same period in 2007. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients, with two new outsourcing clients increasing revenue by $1.2 million. Revenue also increased by $1.4 million due to our acquisition of the defined benefit pension administration and actuarial consulting practices of Cowan Benefits Consulting Limited in June 2007.

In the quarter, EBITDA growth was 6.7%. It increased by $0.5 million to $8.4 million, compared to $7.9 million for the same period in 2007. The increase was due to increased revenue of $3.0 million offset by increased salaries and benefits expense and other operating expenses of $2.5 million. EBITDA margin was 21.4% but when adjusting for the salary component of our acquisition of Heath Benefits Consulting Inc. in June 2006 in the amount of $0.2 million for the three months ended March 31, 2008 and 2007, the EBITDA margin was 22.0% in the quarter compared to 22.4% for the same period in 2007.

The market for our pension and benefits consulting and outsourcing services continues to be positive as we have successfully obtained a number of new clients which we are investing in today with the expectation that they will contribute positively to our organic growth in the future.

During the quarter, the Fund increased its investment in its outsourcing business by approximately $0.6 million in operating costs as Morneau Sobeco continues to integrate a number of new mandates. Morneau Sobeco's revenue and expense recognition for its outsourcing contracts is conservative as all costs incurred to integrate new businesses are expensed as incurred, and only relatively modest integration revenue is recognized over the period.

Net income for the three months ended March 31, 2008 was \$2.8 million, compared to net income of \$3.0 million for the same period in 2007.

The Adjusted Consolidated Distributable Cash Payout Ratio (with the Payout Ratio being declared distributions divided by Adjusted Consolidated Distributable Cash) for the quarter was 79.6% compared to 78.8% in the first quarter of 2007. On a twelve-month rolling basis, the Adjusted Consolidated Distributable Cash Payout Ratio was 86.2%.

The Fund is on track for 2008 both in terms of financial performance and business strategy. The firm continues to focus on its core pension and benefits services, and to pursue selected acquisitions and alliances.

On that note, the Fund announced that it has entered into a definitive agreement to acquire substantially all the assets of Shepell•fgi from Clairvest Group Inc. and its minority partners for total consideration of \$321.9 million payable over two years. The transaction is subject to regulatory approval and other customary conditions and is expected to close on or about June 2, 2008. Following closing, Morneau Sobeco and Shepell•fgi will retain their existing leadership teams and brand identities and will continue using their current client service models. Morneau Sobeco and Shepell•fgi will continue to serve their clients independently.

The Fund also announced that it has entered into a strategic alliance with Sibson Consulting, the human resource consulting division of The Segal Company. This announcement reflects the goal of Morneau Sobeco to strengthen its presence in the U.S. market through alliances with firms offering complementary services. Through this alliance, Morneau Sobeco will be able to offer benefits and human resource consulting solutions to its U.S. clients, and provide enhanced outsourcing solutions to Sibson's client base.

Our year-to-date results are in line with management's expectations, and the board and management continue to believe that 2008 will be a solid year for Morneau Sobeco. On behalf of the Board of Trustees and the management team at Morneau Sobeco, I thank you for your continued support.

Bill Morneau

WILLIAM MORNEAU
Chairman & Chief Executive Officer

HIGHLIGHTS

STRONG RESULTS TO BEGIN 2008

BUSINESS TRANSFORMATION THROUGH MAJOR ACQUISITION

NEW ALLIANCE WITH U.S. SERVICE PROVIDER

DISTRIBUTION INCREASED BY 7%

MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEETS

(Unaudited)
(In thousands of dollars)

	As at March 31, 2008	As at December 31, 2007
Assets		
Current assets:		
Cash	$ —	$ 2,898
Accounts receivable	29,765	27,855
Unbilled fees	2,583	2,067
Income taxes recoverable	596	388
Prepaid expenses and other	1,498	2,016
	34,442	35,224
Future income taxes (note 11)	3,013	3,258
Interest-rate swap (note 6)	86	785
Capital assets (note 4)	9,792	10,186
Intangible assets (note 5)	111,881	115,524
Goodwill	169,451	169,451
	$328,665	$334,428
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ 3,556	$ —
Accounts payable and accrued liabilities	4,780	5,746
Deferred revenue	965	807
Accrued compensation and related benefits	1,844	6,943
Unitholder distributions payable (including non-controlling)	2,045	2,045
	13,190	15,541
Insurance premium liabilities:		
Payable to insurance companies	9,256	9,946
Less related cash and investments held	(9,256)	(9,946)
	—	—
Long-term debt (note 6)	34,926	34,913
Future considerations related to acquisition (note 3)	2,044	2,044
Future income taxes (note 11)	28,806	29,810
	78,966	82,308
Non-controlling interests (note 8)	52,910	54,452
Unitholders' equity:		
Fund units (note 7)	213,093	211,833
Deficit	(16,304)	(14,165)
	196,789	197,668
	$328,665	$334,428

Commitments and Contingencies (notes 3,6,14 and15)

Subsequent event (note 21)

Robert Chisholm
Trustee,
Audit Committee Chair

William Morneau
Trustee,
Chairman and CEO

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF INCOME, OTHER COMPREHENSIVE INCOME AND DEFICIT

For the three months ended

(Unaudited)

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

	March 31, 2008	March 31, 2007
Revenue		
Fees	$ 34,163	$31,178
Commissions	4,816	4,776
Other	155	137
	39,134	36,091
Expenses		
Salaries and benefits	24,337	21,673
Other operating	6,408	6,553
Amortization of capital assets (note 4)	660	523
Amortization of intangible assets (note 5)	3,643	3,775
Interest (note 6)	1,091	453
	36,139	32,977
Income before income taxes and non-controlling interests	2,995	3,114
Income taxes (recovery) (note 11)		
Current	284	134
Future	(760)	(855)
	(476)	(721)
Income before non-controlling interests	3,471	3,835
Non-controlling interests (note 8)	(691)	(790)
Net income	2,780	3,045
Other comprehensive income (note 2(l))	—	—
Comprehensive income	2,780	3,045
Deficit, beginning of year	(14,165)	(6,988)
Distributions declared (note 9)	(4,919)	(4,657)
Deficit, end of period	$(16,304)	$ (8,600)
Net income per Unit (basic and diluted) (note 13)	$ 0.125	$ 0.138

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended
(Unaudited)
(In thousands of dollars)

	March 31, 2008	March 31, 2007
Cash provided by (used in):		
Operating activities		
Net income	$ 2,780	$ 3,045
Items not involving cash:		
Amortization of capital assets (note 4)	660	523
Amortization of intangible assets (note 5)	3,643	3,775
Amortization of debt issue costs (note 6)	13	13
Non-controlling interests of Class B LP Units	691	790
Future income taxes (recovery)	(760)	(855)
Salary component of Heath acquisition (note 3)	240	220
Fair value of interest-rate swap agreements (note 6)	699	64
	7,966	7,575
Change in non-cash operating working capital:		
Accounts receivable	(1,910)	(2,317)
Income taxes recoverable	(208)	674
Unbilled fees	(516)	(1,098)
Prepaid expenses and other	518	214
Accrued compensation and related benefits	(5,099)	(5,255)
Deferred revenue	158	357
Accounts payable and accrued liabilities	(965)	(1,182)
	(56)	(1,032)
Financing activities		
Distributions paid	(6,132)	(6,051)
	(6,132)	(6,051)
Investing activities		
Purchase of capital assets	(266)	(136)
	(266)	(136)
Net (decrease) in cash for the period	(6,454)	(7,219)
Cash, beginning of year	2,898	5,257
Cash (bank indebtedness), end of period	$(3,556)	$(1,962)
Supplemental disclosures:		
Interest paid	$ 304	$ 376
Income taxes (refunded)	98	(477)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of presentation

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

	% Ownership
Morneau Sobeco Limited Partnership ("MSLP")	80.4
Morneau Sobeco Group Limited Partnership ("MS Group LP")	80.4
Morneau Sobeco, Ltd. ("MSUS")	80.4
Morneau Sobeco Corporation ("MS Corp")	80.4
Morneau Sobeco Trust ("Trust")	100.0
Morneau Sobeco GP Inc. ("MS GP")	100.0

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

(b) Measurement uncertainties

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

(c) Revenue recognition and unbilled fees

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

Unbilled fees are recorded at the lower of unbilled hours worked at normal billing rates and the amount which is estimated to be recoverable upon invoicing.

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

Investment income is recorded on the accrual basis.

(d) Foreign currency translation

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

(e) Capital assets

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

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

(f) Intangible assets and goodwill

Intangible assets consist principally of customer relationships, proprietary software and customer contracts, based on management's best estimate of the relative fair values. These intangible assets are being amortized on a straight-line basis over their estimated useful lives of 15 to 20, 5 and 3 years, respectively.

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

(g) Impairment of long-lived assets

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

(h) Insurance premium liabilities and related cash and investments

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

(i) Long-term incentive plan

The Fund has a long-term incentive plan under which participants are eligible to receive Units. The amount awarded under this plan is recorded as salaries and benefits expense over the three-year vesting period.

(j) Employee future benefits

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

The defined benefit option was closed effective January 1, 1998 and included 8 employees, 5 retirees and 54 deferred vested members as at March 31, 2008. All other employees are covered by the defined contribution option of the plan.

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

(k) Income taxes

The Fund uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

(l) Financial instruments

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the income statement. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The Fund had neither available-for-sale nor held-to-maturity instruments.

The interest-rate swap agreements, that are not subjected to hedge accounting are classified as held-for-trading and are recorded at their fair value with a corresponding adjustment to interest expense.

Transaction costs are expensed as incurred for financial instruments classified or designated as held–for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and are included in the underlying balance.

The Fund had no "other comprehensive income or loss" transactions for the three months ended March 31, 2008, and no opening or closing balances for accumulated other comprehensive income or loss.

(m) New accounting policies

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

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

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

These new standards relate to disclosures and presentation only and did not have an impact on the Fund's financial results or position. Disclosures required as a result of adopting the above sections can be found in Notes 18 and 19.

(m) Future accounting changes

In February 2008, the CICA issued new Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new standard will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The Fund is currently assessing the impact this new standard will have on its consolidated financial statements, if any.

3. BUSINESS ACQUISITION

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

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

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

The first instalment of the purchase price was made on closing. The purchase price is conditional upon the success in retaining and growing revenue from specified Heath clients, as well as achieving targeted cost efficiencies. The second and third instalments, which represent contingent consideration, will be settled on June 30 and December 1 of 2008 and are currently estimated to be approximately $6 million. These instalments will be primarily settled by issuing a number of Class B LP Units of MS Group LP based on a predetermined value of $12.52 per unit. In addition to the estimate of $15 million, contingent consideration will include amounts to compensate for forgone distributions payable on its second and third instalments during the period from June 1, 2006 to December 1, 2008, which amounted to approximately $750 to the end of March 31, 2008.

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

These contingent consideration elements will be recorded when the final purchase price has been established except for a portion of the third instalment which is conditional on the continuing employment of certain selling shareholders and is being recorded as salary expense over the required employment period to December 2008. The estimated payable amount as at March 31, 2008 is $1,751 and the expense for the three months ended March 31, 2008 and 2007 was $240 and $220, respectively.

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

Assets and liabilities acquired:

Cash	$ 827
Accounts receivable	1,530
Income taxes recoverable	106
Prepaid expenses and other	101
Capital assets	365
Intangible assets	8,090
Goodwill	3,179
Bank indebtedness	(1,734)
Accounts payable and accrued liabilities	(1,527)
Future income tax liability	(1,923)
Payable to insurance companies	(3,156)
Related cash and investments held	3,156
	$ 9,014
Consideration:	
Cash	$ 449
Debt assumed and repaid	4,648
Exchangeable Units (first instalment paid on June 20, 2006)	3,917
	$ 9,014

These consolidated financial statements include the results of Heath from the date of acquisition.

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

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

On June 1, 2007, a subsidiary of the Fund directly acquired certain assets, liabilities and contracts of the defined benefit pension administration and actuarial consulting practices ("Cowan DB business") of Cowan, a benefits consulting firm based in the Waterloo region, in Ontario. The purchase price is based on the final pension administration and actuarial consulting services revenue and certain other integration conditions and is expected to be approximately $6 million. The acquisition will be paid in three instalments.

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

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

Assets and liabilities acquired:

Cash	$ 256
Prepaid expenses and other	6
Intangible assets	5,821
Accrued compensation and related benefits	(135)
Accounts payable and accrued liabilities	(121)
	$5,827

Consideration:

Cash (financed via operating line of credit)	$3,783
Future considerations	2,044
	$5,827

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

These consolidated financial statements include the results of the Cowan DB business from the date of acquisition.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization March 31, 2008	Net Book Value March 31, 2008	Net Book Value December 31, 2007
Computer equipment	$ 2,568	$(1,159)	$1,409	$ 1,431
Furniture and equipment	3,800	(1,370)	2,430	2,381
Leasehold improvements	9,032	(3,079)	5,953	6,374
	$15,400	$(5,608)	$9,792	$10,186

Amortization for the three months ended March 31, 2008 and 2007 was $660 and $523, respectively.

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization March 31, 2008	Net Book Value March 31, 2008	Net Book Value December 31, 2007
Customer relationships	$103,911	$(12,602)	$ 91,309	$ 92,666
Customer contracts	5,000	(4,428)	572	858
Proprietary software	40,000	(20,000)	20,000	22,000
	$148,911	$(37,030)	$111,881	$115,524

Amortization for the three months ended March 31, 2008 and 2007 was $3,643 and $3,775, respectively.

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

	March 31, 2008	December 31, 2007
Secured term loan	$35,000	$35,000
Debt issue costs, net of accumulated amortization	(74)	(87)
	$34,926	$34,913

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

The secured term loan of $35,000 is with two Canadian chartered banks and is repayable in full on September 30, 2009. The term loan bears interest at the bankers' acceptance rate plus 1%.

The Fund entered into interest-rate swap agreements on September 30, 2005 in order to fix the interest rate at 4.4% for the duration of the loan. These interest-rate swap agreements have been recorded at their fair value with the corresponding adjustment to interest expense. As at March 31, 2008, the fair value of the swap was $86 (December 31, 2007 - $785).

Interest expense is comprised of the following:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest expense on long-term loan	$ 371	$375
Amortization of debt finance charges	13	13
Interest-rate swap agreements fair value adjustment	699	64
Other interest charges	8	1
	$1,091	$453

The Fund also has available a secured operating line of credit for $15,000 with $3,556 drawn at March 31, 2008 (December 31, 2007 – $nil). The line of credit bears interest at the bankers' acceptance rate plus 1% and the undrawn portion incurs a standby fee of 0.2%. The bank indebtedness and term loan are secured by a general assignment of all the assets of the Fund.

As part of the Cowan DB business acquisition, the Fund issued a standby letter of credit of $400 to the vendor.

7. FUND UNITS

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

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

Units are redeemable at any time on demand by the Unitholders up to an aggregate maximum monthly amount of $50. Trustees may, in their sole discretion, waive this limitation. The redemption price is calculated based on the lesser of:

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

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

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

	Units Issued	Special Voting Units	Total Units	Amount
Balance, December 31, 2006	22,062,916	5,721,444	27,784,360	$210,607
Exchange of Class B LP Units	130,003	(130,003)	—	1,226
Balance, December 31, 2007	22,192,919	5,591,441	27,784,360	$211,833
Exchange of Class B LP Units	135,094	(135,094)	—	1,260
Balance, March 31, 2008	22,328,013	5,456,347	27,784,360	$213,093

8. NON-CONTROLLING INTERESTS

The former shareholders of Morneau Sobeco and Heath own 5,456,347 Class B LP Units of MS Group LP. The Class B LP Units are fully exchangeable for an equal number of Units in the Fund and provide the former shareholders of Morneau Sobeco and Heath with a non-controlling interests of 19.6% (December 31, 2007 - 20.1%) in the Fund. Some of the Class B LP Units were subordinated in their rights to receive distributions.

Distributions on the Subordinated Class B LP Units were subordinated in favour of the Fund Units and the Non-subordinated Class B LP Units. The distributions on the Subordinated Class B LP Units were paid at the end of a fiscal quarter to the extent that an average monthly distribution of at least $0.06875 per Unit and Non-subordinated Class B LP Unit in respect of that quarter had been paid.

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

On October 16, 2007, the Audit Committee of the Fund declared that the conditions of the subordination provisions which applied to approximately 72% of the Class B LP Units had been satisfied and the subordination end date was determined to be September 30, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007
(Unaudited)
(In thousands of dollars except unit and per unit amounts)

	Class B LP Units Issued			
	Subordinated	Non-subordinated	Total	Amount
Balance, December 31, 2006	4,095,060	1,626,384	5,721,444	$56,520
Exchange Units	—	(130,003)	(130,003)	(1,226)
Subordination conditions met	(4,095,060)	4,095,060	—	—
Salary component of Heath acquisition				999
Share of income for the year				3,119
Distribution for the year				(4,960)
Balance, December 31, 2007	—	5,591,441	5,591,441	$54,452
Exchange Units	—	(135,094)	(135,094)	(1,260)
Salary component of Heath acquisition				240
Share of income for the period				691
Distribution for the period				(1,213)
Balance, March 31, 2008	—	5,456,347	5,456,347	$52,910

9. DISTRIBUTIONS TO UNITHOLDERS

The Board of Trustees determines the amount of distributions. The Fund's Declaration of Trust provides that distributions must be made to ensure that the Fund will not be liable for ordinary income taxes under the *Income Tax Act (Canada)*. Any taxable income of the Fund that is unavailable for cash distribution will be distributed to Unitholders in the form of additional Units, which Units will be immediately consolidated such that each Unitholder will hold after consolidation the same number of Units as the Unitholder held prior to the distribution, subject to certain exceptions.

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

Distributions announced during the three months ended March 31, 2008 and 2007 were as follows:

Unitholder record date	Total	Per Unit	Paid or payable for the three months ended March 31, 2008
Trust Units			
January 31, 2008	$1,635	$0.07356	February 15, 2008
February 29, 2008	1,642	0.07356	March 17, 2008
March 31, 2008	1,642	0.07356	April 15, 2008
	$4,919	$0.22068	
Class B LP Units			
Non-subordinated			
January 31, 2008	$ 409	$0.07356	February 15, 2008
February 29, 2008	403	0.07356	March 17, 2008
March 31, 2008	401	0.07356	April 15, 2008
	$1,213	$0.22068	

Unitholder record date	Total	Per Unit	Paid or payable for the three months ended March 31, 2007
Trust Units			
January 31, 2007	$1,517	$0.06875	February 15, 2007
February 28, 2007	1,517	0.06875	March 15, 2007
March 30, 2007	1,623	0.07356	April 16, 2007
	$4,657	$0.21106	
Class B LP Units			
Non-subordinated			
January 31, 2007	$ 112	$0.06875	February 15, 2007
February 28, 2007	112	0.06875	March 15, 2007
March 30, 2007	120	0.07356	April 16, 2007
	$ 344	$0.21106	
Subordinated			
March 30, 2007	$ 864	$0.21106	April 16, 2007

10. LONG-TERM INCENTIVE PLAN

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

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

The Committee awarded a payment under the terms of the LTIP of $1,340 for the year ended December 31, 2007 (December 31, 2006 – $386). This amount is recorded as salary expense over a three-year vesting period subsequent to the year of the grant. The expense recognized for the three months ended March 31, 2008 and 2007 was $170 and $32, respectively.

11. INCOME TAXES

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

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

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

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

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

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

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Income taxes at statutory rates:		
Federal	19.50%	22.12%
Provincial	12.68%	12.25%
	32.18%	34.37%
Income tax provision applied to income before income taxes:		
Combined basic federal and provincial income taxes at statutory rates applied to income from operations	$ 964	$ 1,070
Earnings taxed in the hands of the Unitholders	(1,583)	(1,867)
Non-deductible expenses	104	103
Adjustment to future income tax assets and liabilities for change in income tax rate	—	22
Other	39	(49)
	$ (476)	$ (721)

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

	March 31, 2008	December 31, 2007
Future income tax assets:		
Initial Fund Unit issuance costs	$ 2,344	$ 2,581
Capital assets	660	652
Others	9	25
	$ 3,013	$ 3,258
Future income tax liability:		
Intangible assets	$28,806	$29,810

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 31, 2008 and 2007
(Unaudited)
(In thousands of dollars except unit and per unit amounts)

12. EMPLOYEE FUTURE BENEFITS

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

As of January 1, 1998, all new members participate in a defined contribution option, whereby the Fund matches member contributions and may be required to make additional contributions at the option of the members up to a limit prescribed under the *Income Tax Act (Canada)*. Under the defined contribution option, each member is required to contribute a specific dollar amount based on the member's job level classification. Each member may elect to make an optional contribution of between 50% and 300% of the member's required contribution. The Fund matches required contributions. For employees with less than 10 years of service, the Fund contributes 50% of optional contributions and for members with 10 or more years, 75% of optional contributions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007
(Unaudited)
(In thousands of dollars except unit and per unit amounts)

The pension fund assets and obligations are measured as at March 31 2008. Information about the pension plan's defined benefit option is as follows:

	March 31, 2008	December 31, 2007
Fair value of plan assets	$2,960	$2,897
Accrued benefit obligation	3,056	3,218
Funded status – deficit	$ (96)	$ (321)
Plan assets:		
Fair value, beginning of year	$2,897	$2,562
Actual return on plan assets	4	108
Employer contributions	74	285
Benefits paid	(15)	(58)
Fair value, end of period/year	$2,960	$2,897
Accrued benefit obligation:		
Balance, beginning of year	$3,218	$3,164
Current service cost	14	91
Interest cost	44	161
Benefits paid	(15)	(58)
Actuarial gains	(205)	(140)
Balance, end of period/year	$3,056	$3,218
Reconciliation of plan assets to accrued benefit obligation, end of period/year:		
Fair value of plan assets	$2,960	$2,897
Accrued benefit obligation	3,056	3,218
Funded status – deficit	(96)	(321)
Unamortized net actuarial loss (gain)	(238)	(36)
Unamortized transitional obligation	336	359
Accrued benefit asset	$ 2	$ 2
End of year allocation of fair value of plan assets (%):		
Pooled Equities Fund	45%	45%
Pooled Bond Fund	55%	55%
	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007
(Unaudited)
(In thousands of dollars except unit and per unit amounts)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Pension plan cost:		
Current service cost	$ 14	$ 23
Interest cost on accrued benefit obligation	44	40
Return on plan assets	(4)	(23)
Actuarial gains during the period on accrued benefit obligation	(205)	—
	$(151)	$ 40
Other adjustments:		
Difference between actual and expected return on plan assets	(47)	(22)
Amortization of actuarial losses	249	—
Transitional amounts	23	23
Net pension plan expense	$ 74	$ 41

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

Employer contributions	$74	$39
Benefits paid	15	15

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

Weighted average assumptions:

	March 31, 2008	December 31, 2007
Weighted average of the amounts assumed in accounting for the plan:		
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	6.00%	5.50%
Discount rate at the end of preceding period used to determine the benefit cost	5.50%	5.00%
Rate of compensation increase used to determine the accrued benefit obligation	2.50%	2.50%
Rate of compensation increase used to determine the benefit cost	2.50%	2.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

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

The net expense for the Fund's defined contribution option for the three months ended March 31, 2008 and 2007 was $511 and $466, respectively.

13. 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 March 31, 2008	Three Months Ended March 31, 2007
Basic:		
Net income	$ 2,780	$ 3,045
Weighted average number of Units outstanding	22,251,619	22,062,916
Diluted:		
Net income	$ 2,780	$ 3,045
Non-controlling interests	691	790
Net income available to Unitholders and Class B LP Unitholders	$ 3,471	$ 3,835
Weighted average number of Units outstanding – basic	22,251,619	22,062,916
Weighted average exchangeable Class B LP Units outstanding	5,532,741	5,721,444
Total weighted average number of diluted Units	27,784,360	27,784,360
Net income per Unit – basic and diluted	$ 0.125	$ 0.138

14. COMMITMENTS

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

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

2008 (remainder)	$ 4,567
2009	5,519
2010	4,647
2011	3,942
2012	3,003
Thereafter	5,155
Total	$26,833

In addition, the Fund entered into a sublease agreement in 2006 to sublet one of the former Heath office premises. According to the agreement, the Fund is liable for the rent in case of a default by the subtenant. The average annual rent for the lease is $192 and the lease expires on October 30, 2011. The fair value of the total future lease payments as at March 31, 2008 was $647. The Fund considers the risk of default by the subtenant to be low therefore no accrual has been set up for the guarantee.

15. 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.

16. ECONOMIC DEPENDENCE

Revenue from the Fund's largest client was approximately 11% of the total revenue for the three months ended March 31, 2008 (for the three months ended March 31, 2007 – 10%). The Fund's top 10 clients accounted for approximately 31% of the total revenue for the three months ended March 31, 2008 (for the three months ended March 31, 2007 – 33%).

Accounts receivable from the Fund's largest client was approximately 3% of the total accounts receivable as at March 31, 2008 (December 31, 2007 – 2%). The Fund's top 10 clients accounted for approximately 28% of the total accounts receivable as at March 31, 2008 (December 31, 2007 – 24%).

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

17. SEGMENTED INFORMATION

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue:		
Canada	$ 36,701	$ 34,043
United States	2,433	2,048

	March 31, 2008	December 31, 2007
Assets:		
Canada	$326,718	$332,397
United States	1,947	2,031
Liabilities:		
Canada	$131,645	$136,367
United States	231	393

18. MANAGEMENT OF CAPITAL

The Fund views its capital as the combination of its cash (bank indebtedness), long-term loan, non-controlling interests and Unitholders' equity. The Fund's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining the distributions to its Unitholders and the growth of the Fund's business through organic growth and new acquisitions.

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

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

The secured term loan requires the Fund to maintain certain financial covenants, as defined in the Credit agreement on a consolidated basis as followed:

(i) Ratio of debt to EBITDA not to exceed 2.50 to 1.0

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

The Fund complied with all the required financial covenants and the ratios as at March 31, 2008 were 1.2 and 29.7 respectively. Management also uses these ratios as key indicators in managing the Fund's capital.

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

19. FINANCIAL INSTRUMENTS

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

	March 31, 2008	December 31, 2007
Held for trading(1)	$ 86	$ 3,683
Loans and receivables(2)	30,361	28,243
Other financial liabilities(3)	48,116	50,454

(1) Includes cash and Interest-rate swap agreements.

(2) Includes accounts receivable and income taxes recoverable.

(3) Includes accounts payable and accrued liabilities, accrued compensation and related benefits, deferred revenue, Unitholder distributions payable, bank indebtedness and long term debt.

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

Fair value

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

Interest rate risk

The Fund is subject to interest rate risk as its secured term loan bears interest at market rates. Interest-rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt outstanding and related overall cost of borrowing. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based.

A sensitivity analysis that assumes interest rates increased or decreased by 50 basis points with all other variables held constant would result in an increase (decrease) of the Fund's net income by $252. Typically as rates increase, net income increases due to the favorable fair value adjustment to the Fund's interest-rate swap agreements and has no impact on cash.

Credit risk

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

The aging of fees receivable was:

	March 31, 2008	December 31, 2007
Current	$11,728	$ 9,524
Past due 0- 30 days	9,073	9,416
Past due 31- 90 days	5,799	5,643
Past due over 90 days	2,845	2,946
	$29,445	$27,529

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

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

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

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

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

Foreign exchange risk

The Fund realizes a portion of sales in U.S. dollars and has operations in the United States and thus is exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars for the three months ended March 31, 2008 and 2007 was approximately US$1,179 and US$900 respectively.

The Fund is not engaged in currency hedging activities and does not own other instruments that may be settled by the delivery of non-financial assets. The exchange loss (gain) for the three months ended March 31, 2008 and 2007 was $(72) and $(53), respectively.

As at March 31, 2008, the Fund's net exposure to currency risk through its current assets and liabilities dominated in US dollars was US$1,527. Assuming that all other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar against the US dollars would result in an increase (decrease) of $76 in the Fund's net income.

Liquidity risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they fall due. The Fund manages liquidity risk through regular monitoring of financial results and actual cash flows, and also the management of its capital structure and financial leverage as outlined in Note 18.

All current liabilities are due for payment within twelve months of the balance sheet date. The maturities date for Future considerations related to acquisition and long-term debt are disclosed in Notes 3(b) and 6.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

On May 12, 2008, a subsidiary of the Fund signed an asset purchase agreement to acquire certain assets, shares of certain subsidiaries, liabilities and contracts of Shepell FGI Holdings LP ("Shepell.fgi "), a leading provider of Employee Assistance Programs ("EAP"). In addition to providing EAP services, Shepell.fgi also provides Employee Health Management Services and Workplace Training and Educational Services. The transaction is expected to close on June 02, 2008, and is subject to the fulfilment of a number of conditions, including the successful completion of a public offering and approval from the Toronto Stock Exchange, other regulatory authorities and key clients and suppliers.

The purchase price will be approximately $313,758 plus acquisition related costs. The purchase price is expected to be satisfied through cash of $242,400 and two non-interest bearing promissory notes of $75,000 and $4,500. The notes are repayable on July 02, 2009 and July 02, 2010 respectively and will have a present value of $67,667 and $3,691.

The Fund will satisfy the initial cash payment of the purchase price through a public offering to raise $153,000 of capital and a new credit facility.

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

Morneau Sobeco Income Fund (the "Fund") was formed on August 22, 2005 and commenced operations on September 30, 2005 when it completed an initial public offering ("IPO").

This Management's Discussion and Analysis ("MD&A") covers the three months ended March 31, 2008 and should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements of the Fund and notes thereto for the three months ended March 31, 2008 as well as the MD&A, and the Audited Consolidated Financial Statements and notes thereto contained in the Fund's Annual Report for the year ended December 31, 2007.

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

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

To assist investors in assessing the Fund's financial performance, this discussion also makes reference to certain non-GAAP measures such as EBITDA, Standardized Distributable Cash, Adjusted Consolidated Distributable Cash, Standardized Distributable Cash Payout Ratio and Adjusted Consolidated Distributable Cash Payout Ratio. We believe that EBITDA is a useful measure in evaluating performance of the Fund. It is used to monitor compliance with debt covenants and to make decisions related to distributions to Unitholders rather than net income due to the significant amount of amortization expense related to our intangible assets. We also believe that Standardized Distributable Cash, Adjusted Consolidated Distributable Cash, Standardized Distributable Cash Payout Ratio and Adjusted Consolidated Distributable Cash Payout Ratio are useful supplemental measures of performance as they are generally used by Canadian open-ended business income funds as indicators of financial performance. See the footnotes to the "Results of Operations" chart for more details. Non-GAAP measures do not have any standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

This MD&A is in all material respects in accordance with the recommendations provided in CICA's publication *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure*.

FORMATION AND OWNERSHIP STRUCTURE OF THE FUND

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of Ontario. It indirectly owns 22,328,013 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 80.4% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 19.6% non-controlling interest in MS Group LP is held through Class B LP units of the limited partnership (the "Class B LP Units") and an equal number of Special Voting Units of the Fund, which together are exchangeable into Units. Management employees and former owners of the predecessors of the Morneau Sobeco Operating Entities ("Management Securityholders") hold this non-controlling interest.

As at March 31, 2008, 22,328,013 Units and 5,456,347 Special Voting Units of the Fund were issued and outstanding, and 5,456,347 MS Group LP Class B LP Units were issued and outstanding.

BUSINESS OVERVIEW

Morneau Sobeco is the largest Canadian-owned pension and benefits consulting and outsourcing firm, providing services to organizations across Canada and in the United States. We focus on the integrated design and delivery of retirement, employee compensation and benefits programs. We have over 1,100 professionals and support staff with offices in 12 cities across North America. Our clients are primarily large and medium-sized organizations in Canada and the United States, which typically utilize our services on a recurring or contracted basis over a long term.

We derive our revenue primarily from fees charged to clients for pension and benefits consulting and outsourcing engagements. Fees from consulting engagements are charged based on billable hours or a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some 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.

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

SUMMARY AND OUTLOOK

In the first quarter of 2008 we met our positive expectations, from both a revenue and profitability standpoint. For the three months ended March 31, 2008 revenue growth was 8.4%, EBITDA growth was 6.7% and EBITDA margin was 21.4%. Adjusting for the salary component of the Heath acquisition[(1)] in the amount of $0.2 million for the three months ended March 31, 2008 and 2007, the EBITDA margin was 22.0% for the three months ended March 31, 2008 compared to 22.4% for the same period in 2007.

During the quarter, we increased our investment in our outsourcing business by approximately $0.6 million in operating costs as we continue to integrate a number of new mandates. Our revenue and expense recognition for our outsourcing contracts is conservative as all costs incurred to integrate new businesses are expensed as incurred and only our relatively modest integration revenue is recognized over this period.

We are pleased with our results so far in 2008. We continue to achieve solid organic growth. In addition, the market for our services continues to be positive as we have successfully obtained a number of new clients which we are investing in today and they are expected to contribute positively to our organic growth. As part of our growth strategy, we have entered in to new alliances to expand our business and provide more opportunities in the United States. On May 12, 2008, we announced our alliance with Sibson Consulting, a division of Segal Company. Morneau Sobeco and Sibson will collaborate on their respective client mandates and will pursue new joint business opportunities. Sibson will turn to Morneau Sobeco to offer employee benefits administration outsourcing services to its clients in the U.S. Likewise, Morneau Sobeco will refer

U.S. consulting mandates to Sibson. Morneau Sobeco and Sibson will join resources to offer integrated pension and health and welfare consulting and administration outsourcing services in the U.S. market.

ACQUISITION

On May 12, 2008, a subsidiary of the Fund signed an asset purchase agreement to acquire certain assets, shares of certain subsidiaries, liabilities and contracts of Shepell FGI Holdings LP ("Shepell.fgi"), a leading provider of Employee Assistance Programs ("EAP"). In addition to providing EAP services, Shepell.fgi also provides Employee Health Management Services and Workplace Training and Education Services. The transaction is expected to close on June 02, 2008, and is subject to the fulfilment of a number of conditions, including the successful completion of a public offering and approval from the Toronto Stock Exchange, other regulatory authorities and key clients and suppliers.

The purchase price will be approximately $313.8 million plus acquisition related costs. The purchase price is expected to be satisfied through cash of $242.4 million and two non-interest bearing promissory notes of $75 million and $4.5 million. The notes are repayable on July 02, 2009 and July 02, 2010 respectively and will have a present value of $67.7 million and $3.7 million.

The Fund will satisfy the initial cash payment of the purchase price through a public offering to raise $153 million of capital and a new credit facility.

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

The partnership of Morneau Sobeco and Shepell.fgi creates a dynamic organization with enhanced growth opportunities. The merged firm will offer clients a more complete range of solutions to meet emerging human resources needs in the coming years by leveraging and maintaining the established expertise of both firms.

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

Employers face increasing challenges in managing the health and productivity of their workforce. Shepell.fgi's recognized leadership in workplace health services, including prevention-focused employee assistance programs, will complement our firm's leadership in pensions and benefits, and serve a broader spectrum of organizations' human resources management needs.

DISTRIBUTIONS TO UNITHOLDERS

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

As a result of our consistent growth, the Board of Trustees authorized a 7% increase to our target monthly distribution from $0.07356 per Unit to $0.07871 per Unit, to commence the first distribution for Unitholders of record on the last business day of the month following the closing of the Shepell.fgi acquisition.

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

	Three months Ended March 31, 2008	Three months Ended March 31, 2007	Year ended December 31, 2007	Year ended December 31, 2006
		(In thousands of dollars)		
Cash flow from / (used in) operating activities	$ (56)	$(1,032)	$ 27,878	$31,023
Net income	2,780	3,045	12,120	13,973
Distributions to Unitholders, including Class B LP Units	6,132	5,865	24,257	23,134
Excess/(shortfall) of cash flow from operating activities over distributions	(6,188)	(6,897)	3,621	7,889
(Shortfall) of net income from operating activities over distributions	(3,352)	(2,820)	(12,137)	(9,161)

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

The shortfall of cash flow from operating activities over distributions for the three months ended March 31, 2008 is the result of the annual payment of employee bonuses which are paid in the first quarter of each year. We are confident based on our current budget and past history that 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 90.8% on a twelve-month rolling basis ending March 31, 2008 compared to 83.5% for the same period in 2007. The Adjusted Consolidated Distributable Cash Payout Ratio for the three months ended March 31, 2008 was 79.6% compared to 78.8% for the same period in 2007. The Adjusted Consolidated Distributable Cash Payout Ratio was 86.2% on a twelve-month rolling basis ending March 31, 2008 compared to 83.3% for the same period in 2007.

ANALYSIS OF 2008 FIRST QUARTER OPERATING RESULTS

Results of Operations

Selected Unaudited Consolidated Financial Information

	Three months ended March 31	
	2008	2007
	(In thousands of dollars except per unit amounts)	
Revenue	$39,134	$36,091
Deduct:		
Salaries and benefits expense	24,337	21,673
Other operating expense	6,408	6,553
Interest	1,091	453
Amortization of capital and intangible assets	4,303	4,298
Income taxes (recovery)	(476)	(721)
Non-controlling interest	691	790
Net income for the period	2,780	3,045
Add (deduct):		
Amortization of capital and intangible assets	4,303	4,298
Income taxes (recovery)	(476)	(721)
Interest	1,091	453
Non-controlling interest	691	790
EBITDA(1)	$ 8,389	$ 7,865
EBITDA margin	21.4%	21.8%
Cash from operating activities	$ (56)	$ (1,032)
Deduct: Capital expenditures	266	136
Consolidated Distributable Cash(2)	(322)	(1,168)
Deduct: Consolidated Distributable Cash available to non-controlling interest	(64)	(241)
Standardized Distributable Cash (available for Unitholders)(3)	$ (258)	$ (927)
Consolidated Distributable Cash(2)	$ (322)	$ (1,168)
Add (deduct): Non-cash operating working capital	8,022	8,607
Adjusted Consolidated Distributable Cash(4)	$ 7,700	$ 7,439
Net income per Unit (basic and diluted)	$ 0.125	$ 0.138
Standardized Distributable Cash per Unit (basic and diluted)	$ (0.012)	$ (0.042)
Adjusted Consolidated Distributable Cash per Unit (basic and diluted)	$ 0.277	$ 0.268
Standardized Distributions declared per Unit (basic and diluted)	$ 0.221	$ 0.211
Standardized Distributable Cash Payout Ratio(5)(7)	NM	NM
Adjusted Consolidated Distributable Cash Payout Ratio(6)	79.6%	78.8%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	90.8%	83.5%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	86.2%	83.3%

Footnotes:

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

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

(3) "Standardized Distributable Cash" is defined as cash from operating activities, including the effects of changes in non-cash operating working capital, less maintenance capital expenditures and Consolidated Distributable Cash available to non-controlling interest.

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

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

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

(7) This ratio is not presented since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure.

ANALYSIS OF 2008 FIRST QUARTER RESULTS

Revenue

Revenue for the three months ended March 31, 2008 increased by $3.0 million, or 8.4%, to $39.1 million compared to $36.1 million for the same period in 2007. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients, with $1.2 million from two new outsourcing clients. Revenue also increased by $1.4 million due to the Cowan DB business acquisition[(2)].

Salaries and Benefits

Salaries and benefits for the three months ended March 31, 2008 increased by $2.7 million, or 12.3%, to $24.3 million compared to $21.7 million for the same period in 2007. The increase was attributable to increased salaries and benefits of $0.7 million for the Cowan DB business, the additional staffing costs related to the outsourcing business of $0.6 million and general increases of $1.4 million.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2008 decreased by $0.1 million or 2.2%, to $6.4 million compared to $6.5 million for the same period in 2007. The decrease was primarily attributable to the recognition of a capital tax recovery of $0.4 million partially offset by $0.1 million due to the Cowan DB business and general increases of $0.2 million.

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

Interest Expense

Interest expense for the three months ended March 31, 2008 increased by $0.6 million to $1.1 million compared to $0.5 million for the same period in 2007. The change was primarily related to the interest-rate swap fair value adjustment of $0.7 million in the first quarter of 2008 compared to $0.1 million for the same period in 2007.

Amortization of Capital and Intangible Assets

Amortization for the three months ended March 31, 2008 remained unchanged at $4.3 million compared to the same period in 2007.

Income Tax Recovery

Income tax recovery for the three months ended March 31, 2008 decreased by $0.2 million to $0.5 million compared to $0.7 million for the same period in 2007. The decrease was primarily attributable to an increase in current taxes as a result of the capital tax recovery noted above.

Net Income

As a result of the changes noted above, the net income for the three months ended March 31, 2008 was $2.8 million compared to the net income of $3.0 million for the same period in 2007.

Cash from Operating Activities

Cash from operating activities for the three months ended March 31, 2008 increased by $1.0 million to a use of cash of $0.1 million compared to a use of cash of $1.1 million for the same period in 2007. This increase was primarily due to increased changes in non-cash operating working capital of $0.6 million (see below) and improved EBITDA of $0.5 million.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended March 31, 2008 increased by $0.6 million to a use of cash of $8.0 million compared to a use of cash of $8.6 million for the same period in 2007. The increase was primarily attributable to a smaller change in accounts receivable and unbilled fees of $1.0 million due to the timing of collections.

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

EBITDA

EBITDA for the three months ended March 31, 2008 increased by $0.5 million, or 6.7%, to $8.4 million compared to

$7.9 million for the same period in 2007. The increase was due to increased revenue of $3.0 million offset by increased salaries and benefits expense and other operating expenses of $2.5 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended March 31, 2008 increased by $0.7 million to a use of cash of $0.2 million compared to a use of cash of $0.9 million for the same period in 2007. This increase was primarily due to increased cash from operating activities of $1.0 million, which was partially offset by an increased capital expenditures of $0.1 million due to the relocation and expansion of our Halifax office and an increase of $0.2 million in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the three months ended March 31, 2008 increased by $0.3 million to $7.7 million compared to $7.4 million for the same period in 2007. The increase was primarily due to increased EBITDA of $0.5 million, which was partially offset by increased capital expenditures of $0.1 million due to the relocation and expansion of our Halifax office.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table provides an overview of the Fund's cash flows for the periods indicated:

Cash Flow Information

Selected Unaudited Consolidated Financial Information

	Three months ended March 31	
	2008	2007
	(In thousands of dollars)	
Cash provided by (used in):		
Operating activities	$ (56)	$(1,032)
Investing activities	(266)	(136)
Financing activities	(6,132)	(6,051)
(Decrease) in cash	$(6,454)	$(7,219)

2008 First Quarter Results

Cash from operating activities for the three months ended March 31, 2008 increased by $1.0 million to a use of cash of $0.1 million compared to a use of cash of $1.1 million for the same period in 2007. This increase was primarily due to increased changes in non-cash operating working capital of $0.6 million and improved EBITDA of $0.5 million.

Cash outflows from investing activities for the three months ended March 31, 2008 increased by $0.1 million to $0.2 million compared to cash outflows of $0.1 million for the same period in 2007. This increase was primarily attributable to increased capital expenditures of $0.1 million due to the relocation and expansion of our Halifax office.

Cash outflows from financing activities for the three months ended March 31, 2008 increased by $0.1 million to $6.1 million compared to cash outflows of $6.0 million for the same period in 2007. This increase was attributable to the 7% increase to our target monthly distribution from $0.06875 per Unit to $0.07356 per Unit, commencing with the March 2007 distribution.

Capital Expenditures

Pension and benefits consulting and outsourcing is not a capital intensive business. Our capital expenditures typically include office furniture, facility improvements, and information technology hardware. Additional capital expenditure requirements may result from significant business expansion. Such amounts are expected to be funded from our operating cash flow.

Contractual Obligations

Commitments

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

Summary of Contractual Obligations

	Total	2008 to 2009	2010 to 2011	Beyond 2011
	(In thousands of dollars)			
Term loan	$35,000	$35,000	$ —	$ —
Operating leases	26,833	10,086	8,589	8,158
Total	$61,833	$45,086	$8,589	$8,158

In addition, the Fund has entered into a sublease agreement to sublet one of Heath's office premises. According to the agreement, we are liable for the rent in case of a default by the subtenant. The average annual rent for the lease is $0.2 million and the lease expires on October 30, 2011.

Contingent Considerations

The purchase price for the Cowan DB business is expected to be approximately $6 million and the amount will be paid in three instalments. The first instalment of $3.8 million was made on the closing date of June 1, 2007. The second and third instalments are subject to adjustment based on final pension administration and actuarial consulting services revenue and will be payable on August 1, 2008 and August 1, 2009 respectively. In addition, we have issued a standby letter of credit in the amount of $0.4 million which will be paid before December 31, 2008 to the extent the vendor has performed all of its transition services obligations.

The purchase price for Heath is estimated to be approximately $15 million and is being paid in three instalments. The first instalment of $9.0 million was made on closing in 2006. The second and third instalments are conditional upon the success in retaining and growing revenue from specified Heath clients and will be settled on June 30 and December 1 of 2008. These instalments will be settled primarily by issuing a number of Class B LP Units of MS Group LP based on a predetermined value of $12.52 per Unit. In addition to the estimate of $15 million, contingent consideration will include amounts to compensate for forgone distributions payable on its second and third instalments during the period June 1, 2006 to December 31, 2008, which amounted to approximately $0.8 million to the end of March 31, 2008.

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

Capital Resources

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

Capital Resources	As at March 31, 2008	As at December 31, 2007
	(In thousands of dollars)	
Cash/(bank indebtedness)	$ (3,556)	$ 2,898
Working capital (including cash and bank indebtedness)	$ 21,252	$ 19,683
Long-term debt, net of unamortized debt issue cost	$ 34,926	$ 34,913
Unitholders' equity	$196,789	$197,668

We have historically utilized cash from operations to finance working capital requirements and fund growth. As at March 31, 2008, the Fund's working capital (current assets minus current liabilities) was approximately $21.3 million.

We have also maintained credit facilities to manage working capital requirements throughout the year. The Fund's credit facilities include a secured term loan of $35.0 million repayable in full on September 30, 2009. The term loan bears interest at bankers' acceptance rates plus 1%, which has been fixed at 4.4% using an interest-rate swap. This secured term loan requires the Fund to maintain certain financial covenants on a consolidated basis as follows:

(i) Ratio of debt to EBITDA not to exceed 2.5 to 1.0

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

The Fund complied with all the required financial covenants and the ratios at March 31, 2008 were 1.2 and 29.7 respectively.

The credit facilities also include a secured operating line of credit of up to $15.0 million bearing interest at bankers' acceptance rates plus 1% and a standby fee of 0.2% on the undrawn portion. As at March 31, 2008 the Fund had drawn $3.6 million from the secured operating line of credit.

As part of the Shepell.fgi acquisition, the Fund will enter into a new credit agreement.

SELECTED BALANCE SHEET DATA

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

Selected Balance Sheet Data	As at March 31, 2008	As at December 31, 2007
	(in thousands of dollars)	
Current assets	$ 34,442	$ 35,224
Other long-term assets	$294,223	$299,204
Current liabilities	$ 13,190	$ 15,541

Current Assets

Current assets as at March 31, 2008 decreased by $0.8 million to $34.4 million from $35.2 million as at December 31, 2007. The decrease was primarily due to decreased cash of $2.9 million due to the payment of our annual bonuses paid in the first quarter of 2008. The decrease was also attributable to the decreased prepaid expenses of $0.5 million due to the timing of payment to our vendors. This was partially offset by increased accounts receivable net of unbilled fees of $2.4 million due to growth in our revenue and increased income tax recoverable of $0.2 million.

Other Long-Term Assets

Other long-term assets as at March 31, 2008 decreased by $5.0 million to $294.2 million from $299.2 million as at December 31, 2007. The decrease was primarily due to amortization expense of $4.3 million, and change in the fair value of the interest-rate swap of $0.7 million.

Current Liabilities

Current liabilities as at March 31, 2008 decreased by $2.3 million to $13.2 million from $15.5 million as at December 31, 2007. The decrease was primarily related to decreased accrued compensation and related benefits of $5.1 million due to the payment of our annual bonuses in the first quarter of 2008. The decrease was also attributable to decreased accounts payable of

$1.0 million due to the timing of payment to our vendors. This was partially offset by increased deferred revenue of $0.2 million and the increase in bank indebtedness of $3.6 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements, in accordance with GAAP, requires us to make estimates and assumptions that affect the reported values of assets and liabilities 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. Unbilled fees are recorded at the lower of unbilled hours worked at standard billing rates and the amount which we estimate can be recovered upon invoicing. Expenses are recognized as incurred. Losses on fixed-fee contracts are recognized during the period in which the loss becomes probable. Billings in excess of revenue are recorded as a deferred revenue liability until services are rendered. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third-party professional services. Reimbursements are accounted for as a reduction to expenses.

We also earn commission revenue as payment for the provision of benefits consulting services to clients, as a percentage of insurance premiums paid by our clients. Commission revenue is received annually, semi-annually, quarterly or monthly. Annual 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 customer relationships, proprietary software and customer contracts. These finite-life intangible assets are being amortized over their estimated useful lives of 15 to 20, 5, and 3 years respectively. Impairment is assessed annually, or when events or changes in circumstances indicate the carrying amount of assets may not be recoverable.

Goodwill is not amortized and is subject to an impairment test at least annually or when it is more likely than not that the carrying amount of the Fund's net assets exceeds its fair value. Goodwill impairment is assessed based on a comparison of the fair value of the Fund and its net assets including goodwill.

Allowance for Doubtful Accounts

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

Litigation and Claims

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

Future Income Taxes

The Fund uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Financial Instruments

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in the income statement. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The Fund had neither available-for-sale nor held-to-maturity instruments.

The interest-rate swap agreements, that are not subjected to hedge accounting are classified as held-for-trading and are recorded at their fair value with a corresponding adjustment to interest expense.

Transaction costs are expensed as incurred for financial instruments classified or designated as held - for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and are included in the underlying balance.

The Fund had no "other comprehensive income or loss" transactions for the three months ended March 31, 2008, and no opening or closing balances for accumulated other comprehensive income or loss.

New Accounting Policies

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

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

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

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

Future Accounting Changes

In February 2008, the CICA issued the new Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new standard will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The standards concerning goodwill are unchanged from the standards included in the previous section 3062. The Fund is currently assessing the impact this new standard will have on its consolidated financial statements, if any.

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. Morneau Sobeco relies on the Internet as a key mechanism for delivering services to clients and achieving efficiencies in its service model. The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and volume of traffic. As a result, its performance and reliability may decline. In order to maintain the level of security, service and reliability that clients require, Morneau Sobeco may be required to make significant investments in the online means of delivering consulting and outsourcing services. In addition, Web sites and proprietary online services have experienced service interruptions and other delays. If these outages or delays occur frequently in the future, Internet usage as a medium of exchange of information could decline and the Internet might not adequately support the firm's Web-based tools. The adoption of additional laws or regulations with respect to the Internet may impede the efficiency of the Internet as a medium of exchange of information and decrease the demand for Morneau Sobeco's services.

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

Reputational Risk

Morneau Sobeco depends, to a large extent, on its relationships with its clients and its reputation for high-quality outsourcing and consulting services. As a result, the impact of a client not being satisfied with Morneau Sobeco's services or products may be more damaging in Morneau Sobeco's business than in other businesses. Moreover, if the firm fails to meet its contractual obligations, Morneau Sobeco could be subject to legal liability and a loss of client relationships.

Dependence on Key Clients

For the three months ended March 31, 2008, Morneau Sobeco's largest client accounted for approximately 11% of revenue (for the three months ended March 31, 2007 – 10%) and the top 10 clients accounted for approximately 31% of the total revenue for the three months ended March 31, 2008 (for the three months ended March 31, 2007 – 33%). 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. Morneau Sobeco's business involves assumptions and estimates concerning future events, the actual outcome of which cannot be known with certainty in advance. In addition, computational, software programming or data management errors could occur. For example, possible legal proceedings could result from:

(i) a client's assertion that actuarial assumptions used in a pension plan were unreasonable, leading to plan underfunding;

(ii) a claim that inaccurate data was used, which could lead to an underestimation of plan liabilities; or

(iii) a claim that employee benefits plan documents were misinterpreted or plan amendments were misstated in plan documents, which could lead to overpayments to beneficiaries.

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

Reliance on Key Professionals

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

Competition

Morneau Sobeco operates in a highly competitive North American market. As a result, Morneau Sobeco competes with many domestic and international firms. Some of its competitors have achieved substantially more market penetration in certain of the areas in which Morneau Sobeco competes. In addition, some of Morneau Sobeco's competitors have substantially more financial resources and/or financial flexibility than Morneau Sobeco. Competitive forces could result in reduced market share and thus have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Legislative and Regulatory Changes

The business of pension and benefits consulting and outsourcing is highly regulated and laws are constantly evolving. Any changes to laws, rules, regulations or policies could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Changes in Business Conditions

Morneau Sobeco's future success depends, in part, on its ability to develop and implement technology solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. The firm may not be successful in anticipating or responding to these developments on a timely basis and its ideas may not be accepted in the marketplace. The effort to gain technological expertise and develop new technologies in its business requires Morneau Sobeco to incur significant expenses. If Morneau Sobeco cannot offer new technologies as quickly as its competitors, or if the competition develops more cost-effective technologies, Morneau Sobeco could lose market share. Also, products and technologies developed by Morneau Sobeco's competitors may make the firm's service or product offerings non-competitive or obsolete. Any one of these circumstances could have a material adverse effect on Morneau Sobeco's ability to obtain and fulfill important client engagements, and thus could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Timely Completion of Projects and Performance of Obligations

In its contracts with clients, Morneau Sobeco is sometimes committed to complete a project by a scheduled date. If the project is not completed by the scheduled date, Morneau Sobeco may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to the late completion. Morneau Sobeco's success depends in large part on whether it fulfills these and other contractual obligations with clients and maintains client satisfaction. If Morneau Sobeco fails to satisfactorily perform its contractual obligations, its clients could terminate contracts and/or take legal action against Morneau Sobeco. Such occurrences could result in a loss of its professional reputation and in extra costs needed to defend or rectify the situation and thus have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Implications of Fixed-Price Contracts

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

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. The firm is not currently engaged in currency hedging activities. The net revenue exposure after accounting for related expenses denominated in U.S. dollars was approximately US$1.2 million for the three months ended March 31, 2008. An increase in foreign revenues would expose the Fund to fluctuations in exchange rates which may have a material adverse effect on Morneau Sobeco's business, financial condition, and operating results, and on the ability of the Fund to make distributions on the Units.

Interest Rate Fluctuations

Morneau Sobeco may be exposed to fluctuations in interest rates under its borrowings. Interest-rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt outstanding and related overall cost of borrowing. Increases in interest rates may have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Protection of Intellectual Property

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

Rising Insurance Costs

The cost of maintaining professional errors and omissions insurance as well as director and officer liability insurance is significant. Morneau Sobeco could experience higher insurance premiums as a result of adverse claims experience or because of general increases in premiums by insurance carriers for reasons unrelated to its own claims experience. Generally, Morneau Sobeco's insurance policies must be renewed annually. Its ability to continue to obtain insurance at affordable premiums depends upon its ability to continue to operate with an acceptable claims record. A significant increase in the number of claims, the existence of one or more claims in excess of its policy limits or the inability to obtain adequate insurance coverage at acceptable rates, or at all, could have a material adverse effect on Morneau Sobeco's business, financial condition and operating results, and on the ability of the Fund to make distributions on the Units.

Risk Related to the Structure of the Fund

Income Tax Matters

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

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

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

As a result, the Fund has recognized a $2.7 million future income tax liability as at June 30, 2007 on temporary differences in the reported amounts for financial statement and tax purposes in the intangible and capital assets. The Fund will be liable for income tax at a rate of 29.5% on its taxable income earned in 2011 and 28.0% thereafter.

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

On December 15, 2006, the Department of Finance (Canada) released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly traded Units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the proposed rules.

On December 20, 2007, the Department of Finance (Canada) announced proposed technical amendments to clarify certain aspects of the new rules (which, as discussed above, will be effective on January 1, 2011, subject to compliance with the normal growth guidelines). One of the proposed amendments is intended to exempt from the new rules a subsidiary partnership that (i) is not publicly traded, and (ii) is whollyowned by a publicly traded trust or partnership, a taxable Canadian corporation or a combination of these entities. Although the MS Group LP is not publicly traded, the proposed amendments do not appear to exempt a partnership with individual partners. Draft legislation implementing these amendments has not yet been released. However, the Fund believes that the MS Group LP will not be subject to tax under the new rules prior to January 2011, assuming that the Fund complies with the normal growth guidelines.

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

Dependence on Morneau Sobeco Group LP and Its Subsidiaries

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

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

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

Restrictions on Potential Growth

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

Nature of Units

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

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

Market Price of Units

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

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

Leverage and Restrictive Covenants in Agreements Relating to Indebtedness of Morneau Sobeco

The ability of the Trust and its subsidiaries to make distributions or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities. The degree to which MS Group LP or Morneau Sobeco is leveraged could have important consequences to the Unitholders including: Morneau Sobeco's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of Morneau Sobeco's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain borrowings will be at variable rates of interest, which exposes Morneau Sobeco to the risk of increased interest rates; and Morneau Sobeco may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors may increase the sensitivity of Standardized Distributable Cash to interest rate variations.

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.

Dilution of Existing Unitholders and MS Group LP Unitholders

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

Future Sales of Units by the Management Securityholders

The Management Securityholders hold all of the Class B LP Units, representing in aggregate 19.6% of the outstanding MS Group LP Units, which, pursuant to the Exchange Agreement, can be exchanged for Units at any time, subject to certain conditions. Certain of the Management Securityholders have also been granted certain registration rights by the Fund. If the Management Securityholders sell a substantial number of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also contribute to a decline in the market price of the Units.

Restrictions on Certain Unitholders and Liquidity of Units

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

Statutory Remedies

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

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

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

Operating Results, Distribution and Condensed Balance Sheets

Selected Unaudited Consolidated Financial Information

	Quarter ended							
	March 31 2008	December 31 2007	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006	June 30 2006
	(In thousands of dollars except per unit amounts)							
Revenue	$ 39,134	$ 36,707	$ 37,231	$ 37,057	$ 36,091	$ 34,079	$ 33,037	$ 32,793
Net income	2,780	4,489	2,907	1,680	3,045	3,010	2,482	5,646
EBITDA(1)	8,389	7,391	7,481	8,106	7,865	7,890	7,053	7,672
EBITDA margin	21.4%	20.1%	20.1%	21.9%	21.8%	23.2%	21.3%	23.4%
Standardized Distributable Cash(2)	(258)	7,812	8,097	5,835	(927)	7,210	8,725	7,213
Adjusted Consolidated Distributable Cash	7,700	7,025	6,515	7,223	7,439	6,977	6,736	6,868
Distributions declared	6,132	6,131	6,131	6,131	5,865	6,050	5,731	5,688
Net income per Unit (basic and diluted)(1)	$ 0.125	$ 0.203	$ 0.132	$ 0.076	$ 0.138	$ 0.136	$ 0.112	$ 0.257
Standardized Distributable Cash per Unit (basic and diluted)	$ (0.012)	$ 0.352	$ 0.366	$ 0.264	$ (0.042)	$ 0.327	$ 0.396	$ 0.328
Adjusted Consolidated Distributable Cash per Unit (basic and diluted)	$ 0.277	$ 0.253	$ 0.234	$ 0.260	$ 0.268	$ 0.251	$ 0.243	$ 0.248
Distributions declared per Unit (basic and diluted)	$ 0.221	$ 0.221	$ 0.221	$ 0.221	$ 0.211	$ 0.218	$ 0.206	$ 0.206
Standardized Distributable Cash Payout Ratio(3)	NM	62.6%	60.2%	83.4%	NM	66.6%	52.1%	63.0%
Adjusted Consolidated Distributable Cash Payout Ratio	79.6%	87.3%	94.1%	84.9%	78.8%	86.7%	84.9%	83.3%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	90.8%	92.7%	95.0%	90.6%	83.5%	77.9%	85.2%	n/a
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	86.2%	86.0%	85.9%	84.3%	83.3%	85.3%	85.3%	n/a
Total assets	$328,665	$334,428	$337,391	$342,569	$338,530	$345,872	$345,398	$353,149
Total long-term debt	$ 34,926	$ 34,913	$ 34,901	$ 34,888	$ 34,876	$ 35,000	$ 35,000	$ 35,000

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

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

(3) This ratio is not presented since it is not a meaningful % when the Standard Distributable Cash per unit is a negative figure.

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are operating effectively based on the evaluation of these controls and procedures conducted at March 31, 2008.

Internal control over financial reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in the Fund's internal controls over financial reporting during the three months ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

Additional Information

The Fund's Units trade on the Toronto Stock Exchange under the symbol MSI.UN. Additional information relating to the Fund, including all public filings, is available on the SEDAR Web site (www.sedar.com) and on our own Web site at *www.morneausobeco.com*.

The content of this MD&A reflects information known as of May 12, 2008.

MORNEAU SOBECO

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

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

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