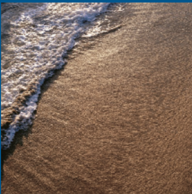
Morneau Sobeco Income Fund

2007 Third Quarter Results



MORNEAU SOBECO

Fresh thinking.
Innovative solutions.

November 13, 2007

To Our Unitholders

Morneau Sobeco Income Fund (the "Fund") is pleased to present its financial results for the third quarter of 2007. Our positive results of 12.7% revenue growth reflect the solid performance of the Fund's operating business for the period ended September 30, 2007. In the third quarter, both revenue and profit met our positive expectations.

Revenue in the 2007 third quarter increased by $4.2 million (or 12.7%) to $37.2 million compared to $33 million for the same period in 2006. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients. Revenue also increased by $1.1 million due to our most recent acquisition.

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. 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 first instalment of the purchase price was made on the closing date of June 1, 2007 and was funded by an operating line of credit of $3.8 million. The operating line of credit was repaid in the third quarter with excess funds from operations. The balance of the purchase price will be paid in two instalments on August 1, 2008 and August 1, 2009. The integration of the Cowan DB business is proceeding well and the acquisition is accretive in our third quarter.

The net income for the three months ended September 30, 2007 was $2.9 million compared to a net income of $2.5 million for the same period in 2006.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three months ended September 30, 2007 increased $0.4 million (or 6.1%) to $7.5 million compared to $7.1 million for the same period in 2006. In the quarter, the EBITDA margin remained strong at 20.7% after adjusting for the Heath Benefits Consulting June 2006 acquisition

accounting in which a portion of the purchase price is being recorded as salary expense over the required employment period to December 2008.

The Standardized Distributable Cash Payout Ratios for the three and nine months ended September 30, 2007 were 60.2% and 110.8% respectively compared to 52.1% and 83.1% for the same period in 2006. This reflects the 7% increase to the target monthly distribution commencing March 2007, increased receivables in line with our revenue growth and additional capital expenditures related to our business expansion and recent acquisition of the Cowan DB business. On a twelve-month rolling basis, the Standardized Distributable Cash Payout Ratio was 95.0%. Adjusted Consolidated Distributable Cash Payout Ratios for the three and nine months ended September 30, 2007 were 94.1% and 85.6%, respectively compared to 84.9% and 84.8% for the same period in 2006. The Adjusted Consolidated Distributable Cash Payout Ratio on a twelve-month rolling basis was 85.9%. As mentioned earlier, excess funds have been used to repay the debt on our recent acquisition of the Cowan DB business.

We continue to see strong demand in the market for our administrative solutions and outsourcing services. Morneau Sobeco is clearly recognized as a technology leader in the field of pension and benefits administration. During the third quarter, we increased our investment in our outsourcing business by approximately $0.8 million in operating costs as we work to integrate a number of new administration clients. The investment in these new clients will contribute positively to our 2008 organic growth. All costs incurred to integrate our new business are expensed as incurred.

Our business operations and development strategies are on track. We continue to achieve positive growth and our year-to-date results are in line with management's expectations.

As part of our growth strategy, we continue to look for new acquisitions and alliances to expand our business in underserved areas including the United States.

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

WILLIAM MORNEAU
President & Chief Executive Officer

HIGHLIGHTS

REVENUE GROWTH IS 12.7% OVER SAME PERIOD IN 2006

EBITDA MARGIN OF 20.7% IN THE QUARTER

REVENUE AND PROFIT MET EXPECTATIONS; ON TRACK TO ACHIEVE POSITIVE YEAR-END RESULTS

MORNEAU SOBECO INCOME FUND

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

	As at September 30, 2007	As at December 31, 2006
Assets		
Current assets:		
Cash	$ —	$ 5,257
Accounts receivable	28,383	23,315
Unbilled fees	2,818	4,117
Income taxes recoverable	209	774
Prepaid expenses and other	1,749	1,875
	33,159	35,338
Future income taxes (note 11)	3,684	4,383
Interest-rate swap (note 6)	995	840
Capital assets (note 4)	10,707	10,833
Intangible assets (note 5)	119,395	125,027
Goodwill	169,451	169,451
	$337,391	$345,872
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ 185	$ —
Accounts payable and accrued liabilities	6,049	5,868
Accrued compensation and related benefits	5,494	7,025
Unitholder distributions payable (including non-controlling)	2,649	2,793
	14,377	15,686
Insurance premium liabilities:		
Payable to insurance companies	7,473	9,108
Less related cash and investments held	(7,473)	(9,108)
	—	—
Long-term debt (note 6)	34,901	35,000
Future considerations related to acquisition (note 3)	2,044	—
Future income taxes (note 11)	33,695	35,047
	85,017	85,733
Non-controlling interest (note 8)	55,004	56,520
Unitholders' equity:		
Fund units (note 7)	211,130	210,607
Deficit	(13,760)	(6,988)
	197,370	203,619
	$337,391	$345,872

Commitments and Contingencies (notes 3, 14 and 15)

Robert Chisholm
Trustee,
Audit Committee Chair

William Morneau
Trustee,
President 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 and nine months ended
(Unaudited)
(In thousands of dollars, except per unit amounts)

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenue				
Fees	$ 30,081	$26,626	$ 93,548	$ 85,548
Commissions	7,009	6,283	16,411	12,149
Other	141	128	420	311
	37,231	33,037	110,379	98,008
Expenses				
Salaries and benefits	22,713	19,864	65,960	57,499
Other operating	7,037	6,120	20,968	18,557
Amortization of capital assets (note 4)	563	535	1,633	1,556
Amortization of intangible assets (note 5)	3,872	3,676	11,453	10,845
Interest (note 6)	337	643	1,105	412
	34,522	30,838	101,119	88,869
Income before income taxes and non-controlling interest	2,709	2,199	9,260	9,139
Income taxes (recovery) (note 11)				
Current	(1)	15	306	248
Future	(944)	(941)	(650)	(4,853)
	(945)	(926)	(344)	(4,605)
Income before non-controlling interest	3,654	3,125	9,604	13,744
Non-controlling interest (note 8)	(747)	(643)	(1,973)	(2,781)
Net income	2,907	2,482	7,631	10,963
Other comprehensive income (note 2(l))	—	—	—	—
Comprehensive income	2,907	2,482	7,631	10,963
Deficit, beginning of period	(11,789)	(3,126)	(6,988)	(2,535)
Distributions declared (note 9)	(4,878)	(4,550)	(14,403)	(13,622)
Deficit, end of period	$(13,760)	$ (5,194)	$ (13,760)	$ (5,194)
Net income per Unit (basic and diluted) (note 13)	$ 0.132	$ 0.112	$ 0.346	$ 0.498

See accompanying notes to consolidated financial statements

MORNEAU SOBECO INCOME FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended

(Unaudited)

(In thousands of dollars)

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Cash provided by (used in):				
Operating activities				
Net income	$ 2,907	$ 2,482	$ 7,631	$ 10,963
Items not involving cash:				
Amortization of capital assets (note 4)	563	535	1,633	1,556
Amortization of intangible assets (note 5)	3,872	3,676	11,453	10,845
Amortization of debt issue costs (note 6)	12	—	38	—
Non-controlling interest of Class B LP Units	747	643	1,973	2,781
Future income taxes	(944)	(941)	(650)	(4,853)
Salary component of Heath acquisition (note 3)	240	293	760	293
Fair value of interest-rate swap agreements (note 6)	(86)	203	(155)	(910)
	7,311	6,891	22,683	20,675
Change in non-cash operating working capital:				
Accounts receivable	1,004	3,423	(5,068)	762
Unbilled fees	527	(577)	1,299	(84)
Income taxes recoverable/payable	(276)	42	564	1,047
Prepaid expenses and other	17	597	(5)	424
Accrued compensation and related benefits	2,192	1,541	(1,666)	(459)
Accounts payable and accrued liabilities	201	(774)	59	(1,222)
	10,976	11,143	17,866	21,143
Financing activities				
Operating line of credit (note 6)	(3,800)	(5,100)	—	—
Distributions paid	(6,131)	(5,732)	(18,274)	(17,052)
	(9,931)	(10,832)	(18,274)	(17,052)
Investing activities				
Business acquisition (note 3)	—	—	(3,783)	(5,098)
Cash and bank indebtedness assumed (note 3)	—	—	256	(908)
Purchase of capital assets	(796)	(155)	(1,507)	(525)
	(796)	(155)	(5,034)	(6,531)
Net increase (decrease) in cash for the period	249	156	(5,442)	(2,440)
Cash (bank indebtedness), beginning of period	(434)	1,752	5,257	4,348
Cash (bank indebtedness), end of period	$ (185)	$ 1,908	$ (185)	$ 1,908
Supplemental disclosures:				
Interest paid	$ 389	$ 423	$ 1,234	$ 1,306
Income taxes paid (refunded)	$ 432	$ 38	$ (54)	$ (409)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007
(Unaudited)
(In thousands of dollars except 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")	79.6
Morneau Sobeco Group Limited Partnership ("MS Group LP")	79.6
Morneau Sobeco, Ltd. ("MSUS")	79.6
Morneau Sobeco Corporation ("MS Corp")	79.6
Morneau Sobeco Trust ("Trust")	100
Morneau Sobeco GP Inc. ("MS GP")	100

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

Investment income is recorded on the accrual basis.

(d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the consolidated balance 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. The exchange losses (gain) for the three and nine months ended September 30, 2007 were $157 and $375 and for the three and nine months ended September 30, 2006 ($64) and $120, respectively.

(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 on a straight-line basis 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 September 30, 2007. 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 (note 11).

(l) Financial instruments

Effective January 1, 2007, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and, Section 3865, Hedges, retroactively without restatement. These new Handbook Sections provide requirements for the recognition and measurement of financial

instruments and the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income; and financial assets held-to-maturity, loan and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. 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.

Upon adoption of these new standards, the Fund designated its cash and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable is classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, accrued compensation and related benefits, unitholder distributions payable and long-term debt, are classified as other financial liabilities. The Fund had neither available for sale, nor held-to-maturity instruments as at September 30, 2007.

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. The interest-rate swap agreements are classified as held-for-trading and are recorded at their fair value with a corresponding adjustment to interest expense.

The adoption of these Handbook Sections had no impact on opening deficit. The Fund had no "other comprehensive income or loss" transactions during the three and nine months ended September 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

3. BUSINESS ACQUISITION

(a) Cowan Benefits Consulting Limited

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, Liabilities and Contacts 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

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

(b) 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 settled by issuing a number of Class B LP Units of MS Group LP based on a pre-determined value of $12.52 per unit. In addition to the estimate of $15 million, contingent consideration will include amounts to compensate for foregone distributions payable on its second and third instalments during the period June 1, 2006 to December 1, 2008, which amounted to approximately $537 to the end of September 30, 2007.

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 September 30, 2007 is $1,272 and the expense for the three and nine months ended September 30, 2007 was $240 and $760, respectively and for both the three and nine months ended September 30, 2006 was $293.

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.

4. CAPITAL ASSETS

The Fund's capital assets are comprised of:

	Cost	Accumulated Amortization September 30, 2007	Net Book Value September 30, 2007	Net Book Value December 31, 2006
Computer equipment	$ 2,331	$ (909)	$ 1,422	$ 1,401
Furniture and equipment	3,579	(1,106)	2,473	2,675
Leasehold improvements	9,027	(2,215)	6,812	6,757
	$14,937	$(4,230)	$10,707	$10,833

Amortization for the three months ended September 30, 2007 and September 30, 2006 were $563 and $535 and for the nine months ended September 30, 2007 and September 30, 2006 were $1,633 and $1,556 respectively.

5. INTANGIBLE ASSETS

The Fund's intangible assets are comprised of:

	Cost	Accumulated Amortization September 30, 2007	Net Book Value September 30, 2007	Net Book Value December 31, 2006
Customer relationships	$103,911	$ (9,889)	$ 94,022	$ 92,110
Customer contracts	5,000	(3,627)	1,373	2,917
Proprietary software	40,000	(16,000)	24,000	30,000
	$148,911	$(29,516)	$119,395	$125,027

Amortization for the three months ended September 30, 2007 and September 30, 2006 were $3,872 and $3,676 and for the nine months ended September 30, 2007 and September 30, 2006 were $11,453 and $10,845 respectively.

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

	September 30, 2007	December 31, 2006
Secured term loan	$35,000	$35,000
Debt issue costs, net of accumulated amortization	(99)	—
	$34,901	$35,000

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

The Fund 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 September 30, 2007 the fair value of the swap was $995 (December 31, 2006 - $840). The adjustment to interest expense for the three and nine months ended September 30, 2007 was $(86) and $(155), and for the three and nine months ended September 30, 2006 was $203 and $(910) respectively.

As a result of adopting the new financial instruments standard in 2007, debt issue costs incurred on the secured term loan have been reclassified from prepaid expenses and other, to long-term debt. The corresponding amortization of $12 and $38 for the three and nine months ended September 30, 2007 respectively have been removed from other operating expenses and is now reflected as interest expense. The debt issue costs, net of accumulated amortization as at December 31, 2006 were $137 and have not been restated.

The Fund also has available a secured operating line of credit for $15,000 with $185 drawn at September 30, 2007. 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 the assets of the Fund.

The Fund as part of the Cowan DB business acquisition 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.

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, 2005	21,977,212	5,494,303	27,471,515	$209,534
Units issued related to the Heath acquisition	85,704	227,141	312,845	1,073
Balance, December 31, 2006	22,062,916	5,721,444	27,784,360	$210,607
Exchange of non-subordinated Class B LP Units	55,001	(55,001)	—	523
Balance, September 30, 2007	22,117,917	5,666,443	27,784,360	$211,130

8. NON-CONTROLLING INTEREST

The former shareholders of Morneau Sobeco and Heath own 5,666,443 Class B LP Units of MS Group LP. The Class B LP Units are fully exchangeable for equal Units in the Fund, subject to certain restrictions, and provide the former shareholders of Morneau Sobeco and Heath with a non-controlling interest of 20.4% (December 31, 2006 – 20.6%) 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. These distributions are paid at the end of a fiscal quarter to the extent that an average monthly distribution of at least $0.06875 per Unit and Non-subordinated Class B LP Unit in respect of that quarter has been paid, and any deficiency in such distributions to holders of Units and Non-subordinated Class B LP Units during the subordination period has been satisfied.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007
(Unaudited)
(In thousands of dollars except per unit amounts)

	Class B LP Units Issued			
	Subordinated	Non-subordinated	Total	Amount
Balance, December 31, 2005	4,095,060	1,399,243	5,494,303	$54,309
Non-subordinated units issued	—	312,845	312,845	3,917
Exchange units	—	(85,704)	(85,704)	(1,073)
Salary component of Heath acquisition	—	—	—	513
Share of income for the year				3,562
Distribution for the year				(4,708)
Balance, December 31, 2006	4,095,060	1,626,384	5,721,444	$56,520
Exchange units	—	(55,001)	(55,001)	(523)
Subordination conditions met	(4,095,060)	4,095,060	—	
Salary component of Heath acquisition				760
Share of income for the period				1,973
Distribution for the period				(3,726)
Balance, September 30, 2007	—	5,666,443	5,666,443	$55,004

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.

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.

Commencing on March 2007, the monthly distribution has increased from $0.06875 per Unit to $0.07356 per Unit. Distributions announced during the three and nine months ended September 30, 2007 and 2006 were as follows:

Unitholder record date	Total	Per Unit	Paid or payable for the three and nine months ended September 30, 2007
Trust Units			
January 31, 2007	$ 1,517	$0.06875	February 15, 2007
February 28, 2007	1,517	0.06875	March 15, 2007
March 30, 2007	1,623	0.07356	April 16, 2007
April 30, 2007	1,623	0.07356	May 15, 2007
May 31, 2007	1,623	0.07356	June 15, 2007
June 29, 2007	1,623	0.07356	July 16, 2007
July 31, 2007	1,623	0.07356	August 15, 2007
August 31, 2007	1,627	0.07356	September 17, 2007
September 28, 2007	1,627	0.07356	October 15, 2007
	$14,403	$0.65242	
Class B LP Units			
Non-subordinated			
January 31, 2007	$ 112	$0.06875	February 15, 2007
February 28, 2007	112	0.06875	March 15, 2007
March 30, 2007	120	0.07356	April 16, 2007
April 30, 2007	120	0.07356	May 15, 2007
May 31, 2007	120	0.07356	June 15, 2007
June 29, 2007	120	0.07356	July 16, 2007
July 31, 2007	120	0.07356	August 15, 2007
August 31, 2007	116	0.07356	September 17, 2007
September 28, 2007	116	0.07356	October 15, 2007
	$ 1,056	$0.65242	
Subordinated			
March 30, 2007	$ 864	$0.21106	April 16, 2007
June 29, 2007	903	0.22068	July 16, 2007
September 28, 2007	903	0.22068	October 15, 2007
	$ 2,670	$0.65242	

Unitholder record date	Total	Per Unit	Paid or payable for the three and nine months ended September 30, 2006
Trust Units			
January 31, 2006	$ 1,511	$0.06875	February 15, 2006
February 28, 2006	1,511	0.06875	March 15, 2006
March 31, 2006	1,511	0.06875	April 17, 2006
April 30, 2006	1,511	0.06875	May 15, 2006
May 31, 2006	1,511	0.06875	June 15, 2006
June 30, 2006	1,517	0.06875	July 17, 2006
July 31, 2006	1,517	0.06875	August 15, 2006
August 31, 2006	1,517	0.06875	September 15, 2006
September 30, 2006 . .	1,516	0.06875	October 16, 2006
	$13,622	$0.61875	
Class B LP Units			
Non-subordinated			
January 31, 2006	$ 96	$0.06875	February 15, 2006
February 28, 2006	96	0.06875	March 15, 2006
March 31, 2006	96	0.06875	April 17, 2006
April 30, 2006	96	0.06875	May 15, 2006
May 31, 2006	96	0.06875	June 15, 2006
June 30, 2006	112	0.06875	July 17, 2006
July 31, 2006	112	0.06875	August 15, 2006
August 31, 2006	112	0.06875	September 15, 2006
September 30, 2006 . .	112	0.06875	October 16, 2006
	$ 928	$0.61875	
Subordinated			
March 31, 2006	$ 845	$0.20625	April 17, 2006
June 30, 2006	845	0.20625	July 17, 2006
September 30, 2006 . .	844	0.20625	October 16, 2006
	$ 2,534	$0.61875	

10. LONG-TERM INCENTIVE PLAN

Executives are eligible to participate in Morneau Sobeco's Long-Term Incentive Plan ("LTIP"), which is designed to align compensation with distributable cash earned by the Fund's subsidiaries. The LTIP provides compensation opportunities for performance resulting in the Fund exceeding its distributable cash targets. The Fund's Compensation, Nominating and Corporate Governance Committee of the Board of Trustees (the "Committee") 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 based upon the amount, by which the distributable cash per Unit (fully diluted) exceeds defined threshold amounts. 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, one-third of these Units vest equally over the 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.

In 2006, the LTIP provided for awards based on the amount by which distributable cash per Unit exceeded a base distribution threshold of $0.825 per Unit per annum. The percentage amount of that excess, which formed the potential LTIP incentive pool, was determined in accordance with the table below:

Percentage by which Distributable Cash per Unit Exceeds Base Threshold	Maximum Proportion of Excess Distributable Cash Available for LTIP Payments
5% or less	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Greater than 10%	20% of any excess over 10%

The base distribution threshold is subject to review by the Committee at least annually. The Committee awarded a payment under the terms of the LTIP of $386 for the year ended December 31, 2006 which is less than the maximum available pool. This amount is recorded as salary expense over the three-year vesting period of 2007 to 2009. The expense recognized for the three and nine months ended September 30, 2007 was $32 and $96, respectively (for the three and nine months ended September 30, 2006 – $nil).

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, but was taxed at the individual unitholder level. 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.

Due to the SIFT Rules, the Fund commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, and those of its flow through entities, that are expected to reverse in or after 2011. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT Rules resulted in the Fund recording a future income tax expense of $2,670 at the initial application in June 2007.

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

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
Income taxes at statutory rates:				
Federal	22.12%	22.12%	22.12%	22.12%
Provincial	12.12%	12.13%	12.12%	12.13%
	34.24%	34.25%	34.24%	34.25%
Income tax provision applied to income before income taxes:				
Combined basic federal and provincial income taxes at statutory rates applied to income from operations	$ 928	$ 753	$ 3,171	$ 3,130
Earnings taxed in the hands of the Unitholders	(1,921)	(1,645)	(5,686)	(5,631)
Non-deductible expenses	115	30	359	93
Adjustment as a result of new SIFT rules	—	—	2,670	—
Adjustment to future income assets and liabilities for change in income tax rate	(72)	(206)	(356)	(2,593)
Change in taxable subsidiary share of temporary differences between the carrying amounts and tax bases of its assets and liabilities	—	—	(300)	183
Others	5	142	(202)	213
	$ (945)	$ (926)	$ (344)	$(4,605)

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

	September 30, 2007	December 31, 2006
Future income tax assets		
Initial Fund unit issuance costs	$ 2,920	$ 3,691
Excess of tax bases of capital assets over their carrying values	719	638
Others	45	54
	$ 3,684	$ 4,383
Future income tax liability		
Carrying value of intangibles in excess of tax bases	$(33,695)	$(35,047)

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.

The pension fund assets and obligations were measured as at September 30, 2007. Information about the pension plan's defined benefit option is as follows:

	September 30, 2007	December 31, 2006
Fair value of plan assets	$2,762	$2,562
Accrued benefit obligation	3,067	3,164
Funded status – deficit	$ (305)	$ (602)
Plan assets:		
Fair value, beginning of period	$2,562	$2,954
Actual return on plan assets	35	217
Employer contributions	209	260
Benefits paid	(44)	(869)
Fair value, end of period	$2,762	$2,562
Accrued benefit obligation:		
Balance, beginning of period	$3,164	$3,896
Current service cost	68	90
Interest cost	120	169
Benefits paid	(44)	(869)
Actuarial losses (gains)	(241)	(122)
Balance, end of period	$3,067	$3,164
Reconciliation of plan assets to accrued benefit obligation, end of period:		
Fair value of plan assets	$2,762	$2,562
Accrued benefit obligation	3,067	3,164
Funded status – deficit	(305)	(602)
Unamortized net actuarial (loss) gain	(74)	155
Unamortized transitional obligation	381	449
Accrued benefit asset	$ 2	$ 2
End of period 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 and nine months ended September 30, 2007
(Unaudited)
(In thousands of dollars except per unit amounts)

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
Pension plan cost				
Current service cost	$ 23	$ 23	$ 68	$ 68
Interest cost on accrued benefit obligation	40	43	120	126
Return on plan assets	(23)	(79)	(35)	(76)
Actuarial losses (gains) during the period on accrued benefit obligation	(4)	231	(241)	—
	$ 36	$ 218	$ (88)	$118
Other adjustments:				
Difference between actual and expected return on plan assets	(24)	33	(104)	(60)
Amortization of actuarial losses (gains)	35	(230)	333	100
Transitional amounts	23	23	68	68
Net pension plan expense	$ 70	$ 44	$ 209	$226

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

Employer contributions	$ 70	$ 39	$ 209	$ 221
Benefits paid	$ 15	$ 7	$ 44	$ 858

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.

	September 30, 2007	December 31, 2006
Weighted average assumptions:		
Discount rate at the end of the current fiscal period used to determine the accrued benefit obligation	5.50%	5.00%
Discount rate at the end of preceding period used to determine the benefit cost	5.00%	4.75%
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%

The net expense for the Fund's defined contribution option for the three months ended September 30, 2007 and September 30, 2006 were $463 and $415 and for the nine months ended September 30, 2007 and September 30, 2006 were $1,369 and $1,191 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 September 30		Nine Months ended September 30	
	2007	2006	2007	2006
Basic:				
Net income	$ 2,907	$ 2,482	$ 7,631	$ 10,963
Weighted average number of Units outstanding	22,098,188	22,062,916	22,074,803	22,008,919
Diluted:				
Net income	$ 2,907	$ 2,482	$ 7,631	$ 10,963
Non-controlling interest	747	643	1,973	2,781
Net income available to Unitholders and Class B LP Unitholders	$ 3,654	$ 3,125	$ 9,604	$ 13,744
Weighted average number of Units outstanding – Basic	22,098,188	22,062,916	22,074,803	22,008,919
Weighted average exchangeable Class B LP Units outstanding	5,686,172	5,721,444	5,709,557	5,602,402
Total weighted average number of diluted Units	27,784,360	27,784,360	27,784,360	27,611,321
Net income per Unit – basic and diluted	$ 0.132	$ 0.112	$ 0.346	$ 0.498

14. COMMITMENTS

The Fund has lease commitments for office premises and equipment with options for renewal. As at September 30, 2007 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:

Remainder of 2007	$ 1,407
2008	5,539
2009	4,930
2010	3,794
2011	3,087
Thereafter	3,443
Total	$22,200

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 $190 and the lease expires on October 30, 2011. The fair value of the total future lease payments as at September 30, 2007 was $705. 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 10% of total revenue for the three and nine months ended September 30, 2007 (for the three and nine months ended September 30, 2006 – 12%). Its top 10 clients accounted for approximately 29% and 31%, respectively of the total revenue for the three and nine months ended September 30, 2007(for the three and nine months ended September 30, 2006 – 34%).

The Fund, in its normal course of business, is exposed to credit risk from its clients. Risk associated with concentration of

credit risk with respect to accounts receivables are limited due to the credit rating of the Funds 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.

17. SEGMENTED INFORMATION

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

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
Revenue				
Canada	$35,145	$31,113	$104,510	$93,072
United States . . .	2,086	1,924	5,869	4,936
	$37,231	$33,037	$110,379	$98,008

	September 30, 2007	December 31, 2006
Assets		
Canada	$335,494	$343,823
United States	1,897	2,049
	$337,391	$345,872
Liabilities		
Canada	$139,738	$141,967
United States	283	286
	$140,021	$142,253

The Fund is not engaged in currency hedging activities and does not own other instruments that may be settled by the delivery of non-financial assets. The Fund realizes a portion of sales in U.S. dollars and is thus exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars was approximately US$726 and US$2,710 for the three and nine months ended September 30, 2007, respectively (for the three and nine months ended September 30, 2006 – US$1,015 and US$2,215, respectively).

18. FINANCIAL INSTRUMENTS

The fair value of the Fund's financial assets and liabilities approximate carrying values due to their short-term nature or with respect to the long-term debt instruments, because they bear interest at market rates. The Fund does not enter into financial instruments for trading or speculative purposes.

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

This Management's Discussion and Analysis ("MD&A") covers the three and nine months ended September 30, 2007 and should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements of the Fund and notes thereto for the three and nine months ended September 30, 2007 as well as the MD&A, Supplemental MD&A and Restated Audited Consolidated Financial Statements and notes thereto contained for the year ended December 31, 2006.

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

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (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 22,117,917 Class A Limited Partnership units of Morneau Sobeco Group Limited Partnership ("MS Group LP"), which represents a 79.6% ownership interest. MS Group LP owns directly and indirectly 100% of Morneau Sobeco Limited Partnership and Morneau Sobeco, Ltd. (the "Morneau Sobeco Operating Entities"). The 20.4% non-controlling interest in MS Group LP is held through Class B LP units of the limited partnership (the "Class B LP Units") and an equal number of Special Voting Units of the Fund, which together are exchangeable into Units. Management employees and former

owners of the predecessors of the Morneau Sobeco Operating Entities ("Management Securityholders") hold this non-controlling interest.

As at September 30, 2007, 22,117,917 Units and 5,666,443 Special Voting Units of the Fund were issued and outstanding, and 5,666,443 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 13 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.

OVERVIEW AND OUTLOOK

In the third quarter we met our positive expectations, from both a revenue and profitability standpoint. For the three and nine months ended September 30, 2007 revenue growth was 12.7% and 12.6% and EBITDA growth was 6.1% and 6.8% compared to same periods in 2006, respectively. Adjusting for the salary component of the Heath acquisition[(1)] of $0.2 million and $0.7 million the EBITDA growth was 5.1% and 8.8% respectively for the three and nine months ended September 30, 2007. For the three and nine months ended September 30, 2007 our EBITDA margin remained strong at 20.7% and 21.9% respectively after adjusting for the Heath acquisition accounting[(1)].

During the quarter, we increased our investment in our outsourcing business by approximately $0.8 million in operating costs as we work to integrate a number of new mandates. All costs incurred to integrate new businesses are expensed as incurred.

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. The purchase price is based on the final pension administration and actuarial consulting services revenue

---

[(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.

and certain other integration conditions and is expected to be approximately $6 million. The first instalment of the purchase price was made on the closing date of June 1, 2007 and was funded by an operating line of credit of $3.8 million. The operating line of credit was repaid in the third quarter with excess funds from operations. The balance of the purchase price will be paid in two instalments on August 1, 2008 and August 1, 2009. The integration of the Cowan DB business is proceeding well with expenses being incurred over our second and third quarters. It is accretive in our third quarter.

Our business is on track. We continue to achieve 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 will contribute positively to our 2008 organic growth. As part of our growth strategy, we continue to look for new acquisitions and alliances to expand our business in underserved areas including the United States.

DISTRIBUTION 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.

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.

As a result of our consistent growth, the Board of Trustees authorized a 7% increase to our target monthly distribution from $0.06875 per Unit to $0.07356 per Unit, commencing with the March 2007 distribution paid April 16, 2007.

The following table presents excess / (shortfall) cash flow from operating activities and net income over distributions to unitholders for the three and nine months ended September 30, 2007, for the year ended December 31, 2006 and the period from August 22, 2005 to December 31, 2005.

	Three months ended September 30, 2007	Nine months ended September 30, 2007	Year ended December 31, 2006	Period from August 22, 2005 to December 31, 2005
	(In thousands of dollars)			
Cash flows from operating activities	$10,976	$ 17,866	$31,023	$ 6,329
Net income	2,907	7,631	13,973	2,048
Distributions to Unitholders, including Class B LP units	6,131	18,129	23,134	5,729
Excess (shortfall) of cash flow from operating activities over distributions	4,845	(263)	7,889	600
(Shortfall) of net income from operating activities over distributions	$ (3,224)	$(10,498)	$ (9,161)	$(3,681)

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. Excess cash from operating activities over distributions has been used to finance growth in receivables, capital expenditures and acquisitions.

The Standardized Distributable Cash Payout Ratios for the three and nine months ended September 30, 2007 were 60.2% and 110.8% respectively compared to 52.1% and 83.1% for the same period in 2006. This reflects the 7% increase to the target monthly distribution commencing March 2007, increased receivables in line with our revenue growth and additional capital expenditures related to our business expansion and recent acquisition of the Cowan DB business. On a twelve-month rolling basis, the Standardized Distributable Cash Payout Ratio was 95.0%. Adjusted Consolidated Distributable Cash Payout Ratios for the three and nine months ended September 30, 2007 were 94.1% and 85.6%, respectively compared to 84.9% and 84.8% for the same period in 2006. The Adjusted Consolidated Distributable Cash Payout Ratio on a twelve-month rolling basis was 85.9%. Excess funds have been used to repay the debt on our recent acquisition.

ANALYSIS OF 2007 THIRD QUARTER OPERATING RESULTS

Results of Operations

Selected Unaudited Consolidated Financial Information

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(In thousands of dollars except per unit amounts)			
Revenue	$37,231	$33,037	$110,379	$98,008
Deduct:				
Salaries and benefits expense	22,713	19,864	65,960	57,499
Other operating expense	7,037	6,120	20,968	18,557
Interest	337	643	1,105	412
Amortization of capital and intangible assets	4,435	4,211	13,086	12,401
Income taxes (recovery)	(945)	(926)	(344)	(4,605)
Non-controlling interest	747	643	1,973	2,781
Net income for the period	2,907	2,482	7,631	10,963
Add (deduct):				
Amortization of capital and intangible assets	4,435	4,211	13,086	12,401
Income taxes (recovery)	(945)	(926)	(344)	(4,605)
Interest	337	643	1,105	412
Non-controlling interest	747	643	1,973	2,781
EBITDA[(1)]	7,481	7,053	23,451	21,952
EBITDA margin	20.1%	21.3%	21.2%	22.4%
Cash from operating activities	$10,976	$11,143	$ 17,866	$21,143
Deduct: Capital expenditures	796	155	1,507	525
Consolidated Distributable Cash[(2)]	$10,180	$10,988	$ 16,359	$20,618
Deduct: Consolidated Distributable Cash available to non-controlling interest	2,083	2,263	3,355	4,202
Standardized Distributable Cash (available for Unitholders)[(3)]	8,097	8,725	13,004	16,416
Consolidated Distributable Cash[(2)]	$10,180	$10,988	$ 16,359	$20,618
Deduct: non -cash operating working capital	3,665	4,252	(4,817)	468
Adjusted Consolidated Distributable Cash[(4)]	6,515	6,736	21,176	20,150
Net income per Unit (basic and diluted)	$ 0.132	$ 0.112	$ 0.346	$ 0.498
Standardized Distributable Cash per Unit (basic and diluted)	$ 0.366	$ 0.396	$ 0.589	$ 0.745
Adjusted Consolidated Distributable Cash per Unit (basic and diluted)	$ 0.234	$ 0.243	$ 0.762	$ 0.730
Standardized Distributions declared per Unit (basic and diluted)	$ 0.221	$ 0.206	$ 0.652	$ 0. 619
Standardized Distributable Cash Payout Ratio[(5)]	60.2%	52.1%	110.8%	83.1%
Adjusted Consolidated Distributable Cash Payout Ratio[(6)]	94.1%	84.9%	85.6%	84.8%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	95.0%	85.2%	95.0%	85.2%
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	85.9%	85.3%	85.9%	85.3%

Footnotes:

(1) "EBITDA" is defined as net income (loss) before interest expense, income taxes, 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.

ANALYSIS OF 2007 THIRD QUARTER RESULTS

Revenue

Revenue for the three months ended September 30, 2007 increased by $4.2 million, or 12.7%, to $37.2 million compared

to $33.0 million for the same period in 2006. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients. Revenue also increased by $1.1 million due to the Cowan DB business acquisition.

Salaries and Benefits

Salaries and benefits for the three months ended September 30, 2007 increased by $2.8 million, or 14.3%, to $22.7 million compared to $19.9 million for the same period in 2006. The increase was attributable to salary and benefits of $0.5 million for the Cowan DB business, the additional staffing costs related to the outsourcing business of $0.8 million and general increases of $1.5 million.

Other Operating Expenses

Other operating expenses for the three months ended September 30, 2007 increased by $0.9 million, or 15.0%, to $7.0 million compared to $6.1 million for the same period in 2006. The increase was primarily attributable to the Cowan DB business operating expenses of $0.1 million, additional investments in technology of $0.3 million and general expenses of $0.5 million.

Interest Expense

Interest expense for the three months ended September 30, 2007 decreased by $0.3 million to $0.3 million compared to $0.6 million for the same period in 2006. The decreased was primarily related to a favorable change in the fair value of the swap of $0.2 million and lower interest expense on the $3.8 million operating line of credit for the Cowan DB business acquisition compared to the $5.1 million operating line of credit for the Heath acquisition during the same period in 2006.

Amortization of Capital and Intangible Assets

Amortization for the three months ended September 30, 2007 increased by $0.2 million, or 5.3%, to $4.4 million compared to $4.2 million for the same period in 2006. The increase was primarily attributable to the increase in the amortization of intangible assets as a result of the acquisition of the Cowan DB business.

Income Tax Recovery

Income tax recovery for the three months ended September 30, 2007 was $0.9 million and is comparable to the tax recovery of $0.9 million for the same period in 2006.

Net Income

As a result of the changes noted above, the net income for the three months ended September 30, 2007 was $2.9 million compared to the net income of $2.5 million for the same period in 2006.

Cash from Operating Activities

Cash from operating activities for the three months ended September 30, 2007 decreased by $0.2 million to $11.0 million compared to $11.2 million for the same period in 2006. This decrease was primarily due to decreased changes in non-cash operating working capital of $0.6 million (see below) offset by improved EBITDA of $0.4 million.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the three months ended September 30, 2007 decreased by $0.6 million to $3.7 million compared to $4.3 million for the same period in 2006. The decrease was primarily attributable to the increased receivable net of unbilled fees of $1.3 million due to growth in revenue partially offset by the changes in payables, accrued compensation and prepaid expenses as a result of growth and the timing of payments.

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

EBITDA

EBITDA for the three months ended September 30, 2007 increased $0.4 million, or 6.1%, to $7.5 million compared to $7.1 million for the same period in 2006. The increase was due to increased revenue of $4.2 million partially offset by increased salaries and benefits expense and operating costs of $3.8 million.

Standardized Distributable Cash

Standardized Distributable Cash for the three months ended September 30, 2007 decreased by $0.6 million, or 7.2%, to $8.1 million compared to $8.7 million for the same period in 2006. This decrease was primarily due to decreased cash from operating activities of $0.2 million and increased capital expenditures of $0.6 million as a result of additional leasehold improvements due to the expansion of our Toronto location and the opening of our new office in Kitchener-Waterloo as

part of Cowan DB business acquisition. This was partially offset by a decrease 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 September 30, 2007 decreased by $0.2 million or 3.3%, to $6.5 million compared to $6.7 million for the same period in 2006.The decrease was primarily due to increased capital expenditures of $0.6 million as a result of additional leasehold improvements due to the expansion of our Toronto location and the opening of our new office in Kitchener-Waterloo as part of the Cowan DB business acquisition. This was partially offset by increased EBITDA of $0.4 million.

ANALYSIS OF NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 RESULTS

Revenue

Revenue for the nine months ended September 30, 2007 increased by $12.4 million, or 12.6%, to $110.4 million compared to $98.0 million for the same period in 2006. The increase in revenue was a result of additional consulting and outsourcing business from a variety of clients, with two existing clients increasing our revenue by $1.7 million each. Revenue also increased by $3.8 million due to the Heath acquisition and $1.5 million due to the Cowan DB business acquisition.

Salaries and Benefits

Salaries and benefits for the nine months ended September 30, 2007 increased by $8.5 million, or 14.7%, to $66.0 million compared to $57.5 million for the same period in 2006. The increase was attributable to salary and benefits of $2.2 million for Heath, the salary component of the Heath acquisition of $0.5 million, salary and benefits of $0.7 million for the Cowan DB business, additional staffing costs related to the outsourcing business of $1.0 million, and general increases of $4.1 million.

Other Operating Expenses

Other operating expenses for the nine months ended September 30, 2007 increased by $2.4 million, or 13.0%, to $21.0 million compared to $18.6 million for the same period in 2006. The increase was primarily attributable to Heath operating expenses of $0.8 million, Cowan DB business operating cost of $0.2 million, and increased general expenses of $1.4 million.

Interest Expense

Interest expense for the nine months ended September 30, 2007 increased by $0.7 million to $1.1 million compared to interest expense of $0.4 million for the same period in 2006. The increase was primarily related to the reduction in interest expense of $0.9 million in 2006 as a result of the recognition of the fair value of the interest rate swap compared to a $0.2 million reduction for the nine months ended September 30, 2007.

Amortization of Capital and Intangible Assets

Amortization for the nine months ended September 30, 2007 increased by $0.7 million, or 5.5%, to $13.1 million compared to $12.4 million for the same period in 2006. The increase was primarily attributable to the increase in the amortization of intangible assets as a result of the acquisitions of Heath and the Cowan DB business.

Income Tax Recovery

Income tax recovery for the nine months ended September 30, 2007 was $0.3 million compared to a tax recovery of $4.6 million for the same period in 2006. On June 22, 2007, previously announced legislation providing for the income taxation of specified investment flow through entities ("SIFT") received Royal Assent. As a result, the Fund recognized a $2.7 million future income tax liability as at June 30, 2007 which represents the temporary differences between the accounting and tax basis of the intangible assets. The change in tax expense is primarily attributable to the recognition of this future tax liability of $2.7 million compared to an income tax recovery of $2.6 million in 2006 related to a decline in the future income tax rates.

Net Income

As a result of the changes noted above the net income for the nine months ended September 30, 2007 was $7.6 million compared to the net income of $11.0 million for the same period in 2006.

Cash from Operating Activities

Cash from operating activities for the nine months ended September 30, 2007 decreased by $3.3 million to $17.8 million compared to $21.1 million for the same period in 2006. This decrease was primarily due to decreased changes in non-cash

operating working capital of $5.3 million (see below) partially offset by improved EBITDA of $2.0 million after taking into account the additional salary component of the Heath acquisition of $0.5 million compared to same period last year.

Changes in Non-Cash Operating Working Capital

Changes in non-cash operating working capital for the nine months ended September 30, 2007 decreased by $5.3 million to a use of $4.8 million compared to source of $0.5 million for the same period in 2006. The decrease was primarily attributable to increased receivables net of unbilled fees of $4.4 million due to the 12.6% growth in revenue, higher bonus payments of $0.9 million in 2007 for 2006 bonuses since a portion of 2005 bonuses were paid prior to the IPO and the funding of the 2006 long-term incentive plan awarded amount of $0.4 million in 2007. This was partially offset by increased payables and prepaid expenses in line with our business growth and the receipt of a non-recurring tax credit related to the e-commerce activities in the province of Quebec of $0.7 million.

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

EBITDA

EBITDA for the nine months ended September 30, 2007 increased $1.5 million, or 6.8%, to $23.5 million compared to $22.0 million for the same period in 2006. The increase was due to increased revenue of $12.4 million partially offset by increased salaries and benefits expense and operating costs of $10.9 million.

Standardized Distributable Cash

Standardized Distributable Cash for the nine months ended September 30, 2007 decreased by $3.4 million, or 20.8%, to $13.0 million compared to $16.4 million for the same period in 2006. This decrease was primarily due to lower cash from operating activities of $3.3 million and increased capital expenditures of $1.0 million as a result of additional leasehold improvements due to the expansion of our Montreal and Toronto locations as well as the opening of our new office in Kitchener-Waterloo as part of Cowan DB business acquisition. This was partially offset by a decrease of $0.9 million in Consolidated Distributable Cash available to non-controlling interest.

Adjusted Consolidated Distributable Cash

Adjusted Consolidated Distributable Cash for the nine months ended September 30, 2007 increased by $1.0 million or 5.1%, to $21.2 million compared to $20.2 million for the same period in 2006. The increase was primarily due to increased EBITDA of $2.0 million after taking into account the additional salary component of the Heath acquisition in the amount of $0.5 million compared to same period last year. This was partially offset by increased capital expenditures of $1.0 million as a result of additional leasehold improvements due to the expansion of our Montreal and Toronto locations and the opening of our new office in Kitchener-Waterloo as part of Cowan DB business acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information
Selected Unaudited Consolidated Financial Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	(In thousands of dollars)			
Cash provided by (used in)				
Operating Activities	$10,976	$ 11,143	$ 17,866	$ 21,143
Investing Activities	(796)	(155)	(5,034)	(6,531)
Financing Activities	(9,931)	(10,832)	(18,274)	(17,052)
Increase (decrease) in cash	$ 249	$ 156	$ (5,442)	$ (2,440)

2007 Third Quarter Results

Cash from operating activities for the three months ended September 30, 2007 decreased by $0.2 million to $11.0 million compared to $11.2 million for the same period in 2006. This decrease was primarily due to reduced changes in non-cash operating working capital of $0.6 million, offset by improved EBITDA of $0.4 million.

Cash outflow from investing activities for the three months ended September 30, 2007 increased by $0.6 million to $0.8 million compared to cash outflow of $0.2 million for the same

period in 2006. This increase was primarily attributable to increased capital expenditures of $0.6 million compared to the same period in 2006 as a result of additional leasehold improvements due to expansion of our Toronto location and the opening of our new office in Kitchener-Waterloo as part of the Cowan DB business acquisition.

Cash outflows from financing activities for the three months ended September 30, 2007 decreased by $0.9 million to $9.9 million compared to cash outflows of $10.8 million for the same period in 2006. This decrease is due to $1.3 million less operating line of credit repayment in the current quarter due to lower acquisition costs for the Cowan DB business compared to Heath. This was partially offset by the 7% increase in our monthly distribution commencing March 2007.

Nine Months Ended September 30, 2007 and 2006

Cash from operating activities for the nine months ended September 30, 2007 decreased by $3.3 million to $17.8 million compared to $21.1 million for the same period in 2006. This decrease was primarily due to reduced changes in non-cash operating working capital of $5.3 million as previously described partially offset by improved EBITDA of $2.0 million after taking into account the additional salary component of the Heath acquisition of $0.5 million compared to same period last year.

Cash outflow from investing activities for the nine months ended September 30, 2007 decreased by $1.5 million to $5.0 million compared to cash outflows of $6.5 million for the same period in 2006. This decrease was primarily attributable to lower business acquisition spending net of cash assumed of $2.5 million for the acquisition of the Cowan DB business compared to the acquisition of Heath during the same period in 2006. This was partially offset by increased capital expenditures of $1.0 million compared to the same period in 2006 as a result of additional leasehold improvements due to the expansion of our Montreal and Toronto locations and the opening of our new office in Kitchener-Waterloo as part of Cowan DB business acquisition.

Cash outflows from financing activities for the nine months ended September 30, 2007 increased by $1.2 million to $18.3 million compared to $17.1 million for the same period in 2006. The increase was attributed to the 7% increase in monthly distribution commencing March 2007 together with additional cash distribution for the five months related to Units issued as

part of the Heath acquisition and the special one-time cash distribution declared in December 2006, paid in the first quarter of 2007.

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 software and 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 seven years. We also have a term loan described under "Capital Resources". Future expected payments are as follows:

Summary of Contractual Obligations

	Total	2007 to 2009	2010 to 2011	Beyond 2011
	(In thousands of dollars)			
Term loan	$35,000	$35,000	$ —	$ —
Operating leases	22,200	11,876	6,881	3,443
Total	$57,200	$46,876	$6,881	$3,443

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 $190 thousand 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 instalment 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 by issuing a number of Class B LP Units of MS Group LP based on a pre-determined value of $12.52 per unit. In addition to the estimate of $15 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 $0.5 million to the end of September 30, 2007.

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

Capital Resources

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

Capital Resources	As at September 30, 2007	As at December 31, 2006
	(In thousands of dollars)	
Cash (bank indebtedness)	$ (185)	$ 5,257
Working capital	$ 18,782	$ 19,652
Long-term debt, net of unamortized debt issue cost	$ 34,901	$ 35,000
Unitholders' equity	$197,370	$203,619

We have historically utilized cash from operations to finance working capital requirements and fund growth. As at September 30, 2007, the Fund's working capital (current assets minus current liabilities) was approximately $18.8 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 million repayable in full on September 30, 2009. The term loan bears interest at bankers' acceptance rates plus 1%, which have been fixed at 4.4% using an interest-rate swap. 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 September 30, 2007 were 1.1 and 29.8 respectively.

The credit facilities also include a secured operating line of credit of up to $15 million bearing interest at bankers' acceptance rates plus 1% and a standby fee of 0.2% on the undrawn portion. As at September 30, 2007, the Fund had drawn $0.2 million from the secured operating line of credit.

It is our current intention to renew the long-term debt on maturity.

SELECTED BALANCE SHEET DATA

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

Selected Balance Sheet Data	As at September 30, 2007	As at December 31, 2006
	(in thousands of dollars)	
Current assets	$ 33,159	$ 35,338
Other long-term assets	$304,232	$310,534
Current liabilities	$ 14,377	$ 15,686

Current Assets

Current assets as at September 30, 2007 decreased by $2.1 million to $33.2 million from $35.3 million as at December 31, 2006. The decrease was primarily due to decreased cash of $5.2 million as a result of the payment of our annual bonuses and decreased income tax recoverable of $0.6 million. This was partially offset by increased accounts receivables and unbilled fees of $3.8 million due to the growth in revenue.

Other Long-Term Assets

Other long-term assets as at September 30, 2007 decreased by $6.3 million to $304.2 million from $310.5 million as at December 31, 2006. The decrease was as a result of the

amortization expense of $13.1 million and the change in the future income tax asset of $0.7 million. This was partially offset by increased intangibles of $5.8 million related to the Cowan DB business acquisition, the change in fair value of the swap by $0.2 million and capital expenditures of $1.5 million.

Current Liabilities

Current liabilities as at September 30, 2007 decreased by $1.3 million to $14.4 million from $15.7 million as at December 31, 2006. The decrease was primarily due to decreased accrued compensation and related benefits of $1.5 million due to the payment of 2006 annual bonuses, funded in 2007. This is partially offset by the use of the operating line of credit of $0.2 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, included with accounts payable and accrued liabilities, until services are rendered. Revenue does not include reimbursements for recoverable expenses, such as employee travel expenses, outside printing and third-party professional services. Reimbursements are accounted for as a reduction to expenses.

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

Amortization of Finite-Life Intangible Assets

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 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

Effective January 1, 2007, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and, Section 3865, Hedges, retroactively without restatement. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income; and financial assets held-to-maturity, loan and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. 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.

Upon adoption of these new standards, the Fund designated its cash and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable is classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, Accounts payable and accrued liabilities, Accrued compensation and related benefits, Unitholder distributions payable and Long-term debt, are classified as other financial liabilities. The Fund had neither available for sale, nor held-to-maturity instruments during the three and nine months ended September 30, 2007.

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. The interest-rate swap agreements are classified as held-for-trading and are recorded at their fair value with a corresponding adjustment to interest expense.

The adoption of these Handbook Sections had no impact on opening deficit. The Fund had no "other comprehensive income or loss" transactions during the three and nine months ended September 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

The carrying value of the financial instruments approximates their fair values due to their short-term nature with the exception of the interest-rate swap agreements in place on the term loan, which have been recorded at the current market rate.

We are not engaged in currency hedging activities and do not own other instruments that may be settled by the delivery of non-financial assets. We realize a portion of our sales in U.S. dollars and are thus exposed to fluctuations in the value of the U.S. dollar relative to the Canadian dollar. The net revenue exposure after accounting for related expenses denominated in U.S. dollars was approximately US$0.7 million and US$2.7 million respectively for the three and nine months ended September 30, 2007.

In our normal course of business, we are exposed to credit risk from our clients. Risk associated with concentrations of credit risk with respect to accounts receivables are limited due to the credit rating of our top 10 clients. We have over 1,000 clients with no client consisting of greater than 1% of total revenue with the exception of our top ten clients.

In our view, we are not exposed to significant interest, currency or credit risks arising from financial instruments.

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 firm's and 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 and nine months ended September 30, 2007, Morneau Sobeco's largest client accounted for approximately 10% of revenue (three and nine months ended September 30, 2006 – 12%) and the top 10 clients accounted for approximately 29% and 31%, respectively of the total revenue for the three and nine months ended September 30, 2007 (three and nine months ended September 30, 2006 – 34%). 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 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.

Interest Rate Fluctuations

Morneau Sobeco may be exposed to fluctuations in interest rates under its borrowings. 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 proprietary rights 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 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 31.5% on its taxable income earned after December 31, 2010.

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 MS Corp or its subsidiaries. As holders of Units, 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 interests, 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[1] 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 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 20.4% of the outstanding MS Group LP Units, which, pursuant to the Exchange Agreement, can be exchanged for Units at any time, subject to certain conditions. Certain of the Management Securityholders have also been granted certain registration rights by the Fund. If the Management Securityholders sell a substantial number of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also contribute to a decline in the market price of the Units.

---

[1] 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)*.

Restrictions on Certain Unitholders and Liquidity of Units

The Fund 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 base). 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

	Three months ended							
	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006	June 30 2006	March 31 2006	December 31 2005
	(in thousands of dollars except per unit amounts)							
Revenue	$ 37,231	$ 37,057	$ 36,091	$ 34,079	$ 33,037	$ 32,793	$ 32,178	$ 30,071
Net Income[(1)]	2,907	1,680	3,045	3,010	2,482	5,646	2,835	2,048
EBITDA	7,481	8,106	7,865	7,890	7,053	7,672	7,228	7,146
EBITDA Margin	20.1%	21.9%	21.8%	23.2%	21.3%	23.4%	22.5%	23.8%
Standardized Distributable Cash[(2)]	8,097	5,835	(927)	7,210	8,725	7,213	486	4,978
Adjusted Consolidated Distributable Cash	6,515	7,223	7,439	6,977	6,736	6,868	6,566	6,543
Distributions declared	6,131	6,131	5,865	6,050	5,731	5,688	5,666	5,729
Net income per Unit (basic and diluted)[(1)]	$ 0.132	$ 0.076	$ 0.138	$ 0.136	$ 0.112	$ 0.257	$ 0.129	$ 0.093
Standardized Distributable Cash per Unit (basic and diluted)	$ 0.366	$ 0.264	$ (0.042)	$ 0.327	$ 0.396	$ 0.328	$ 0.022	$ 0.229
Adjusted Consolidated Distributable Cash per Unit (basic and diluted)	$ 0.234	$ 0.260	$ 0.268	$ 0.251	$ 0.243	$ 0.248	$ 0.239	$ 0.238
Distributions declared per Unit (basic and diluted)	$ 0.221	$ 0.221	$ 0.211	$ 0.218	$ 0.206	$ 0.206	$ 0.206	$ 0.209
Standardized Distributable Cash Payout Ratio	60.2%	83.4%	(502.1)%	66.6%	52.1%	63.0%	932.0%	91.1%
Adjusted Consolidated Distributable Cash Payout Ratio	94.1%	84.9%	78.8%	86.7%	84.9%	83.3%	86.3%	87.6%
Twelve-month rolling Standardized Distributable Cash Payout Ratio	95.0%	90.6%	83.5%	77.9%	85.2%	n/a	n/a	n/a
Twelve-month rolling Adjusted Consolidated Distributable Cash Payout Ratio	85.9%	84.3%	83.3%	85.3%	85.3%	n/a	n/a	n/a
Total Assets	$337,391	$342,569	$338,530	$345,872	$345,398	$353,149	$342,322	$348,551
Total Long-term debt	$ 34,901	$ 34,888	$ 34,876	$ 35,000	$ 35,000	$ 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 basis 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, 2007 and 2006 are significantly lower than the Distributions declared as the Fund pays its employees their annual bonuses in the first quarter of each year.

DISCLOSURE CONTROLS AND PROCEDURES

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are operating effectively based on the evaluation of these controls and procedures conducted at September 30, 2007.

ADDITIONAL INFORMATION

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

The content of this MD&A reflects information known as of November 13, 2007.

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.

INFO@MORNEAUSOBECO.COM

WWW.MORNEAUSOBECO.COM

© Morneau Sobeco, 2007