MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

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For more information about Morneau Shepell, visit our website **morneaushepell.com**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morneau Shepell Inc. ("Morneau Shepell" or the "Company") was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010.

This Management's Discussion and Analysis ("MD&A") covers the three and six months ended June 30, 2015 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell and notes thereto for the three and six months ended June 30, 2015, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2014.

All financial information is presented in Canadian dollars and in accordance with International Financial Reporting Standards, 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. They are based on certain factors and assumptions, including expected growth, results of operations, business prospects and opportunities. 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 the ability to maintain profitability and manage growth, ability to pay dividends, 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 us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, twelve-month rolling Normalized Payout Ratio, and twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital. EBITDA and adjusted EBITDA are intended to represent an indication of Morneau Shepell's capacity to generate profit from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. EBITDA margin represents EBITDA as a percentage of revenue, and Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of revenue. We believe both EBITDA and Adjusted EBITDA are useful measures in evaluating our performance and we utilize them to monitor compliance with debt covenants. We also believe that Free Cash Flow, Normalized Free Cash Flow, the twelve-month rolling Normalized Payout Ratio, and the twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital, are useful supplemental measures of Morneau Shepell's ability to generate cash after deducting capital expenditures required to maintain or expand the business. We also

utilize them to make decisions related to dividends to shareholders. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for cash flow from operating activities. Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures. Normalized Free Cash Flow is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-IFRS measures are reconciled to IFRS measures elsewhere in this MD&A.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at August 4, 2015, Morneau Shepell had 48,030,100 common shares, nil preferred shares and $74.9 million aggregate principal amount of 5.75% convertible debentures outstanding. In the event all of the outstanding 5.75% convertible debentures are converted into common shares of the Company by the holders prior to their maturity date, the total number of common shares issuable will be approximately 5,000,000. The number of long-term incentive plan (“LTIP”) units, including those that remain unvested, that are outstanding and may be converted to common shares is approximately 2,590,000.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing health and productivity, administrative and retirement solutions. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With almost 4,000 employees in offices across North America, we offer services to approximately 20,000 organizations in Canada, the United States and around the globe directly and through our distribution channel partners.

We derive our revenue primarily from fees charged to clients for consulting engagements, outsourcing engagements, employee and family assistance programs and absence management solution services.

Fees from consulting engagements are charged based on billable hours or on a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some benefits consulting assignments which involve the purchase of an insurance policy underwritten by an insurance company, we may be paid commissions (in lieu of fees) by the client’s insurance company, which is a common practice in the industry. These commissions are based on a percentage of the premiums paid by the client to the insurance company and our policy is to disclose them to our client. We assume no underwriting risk as the insurance policy is underwritten by the insurance company.

Our Administrative Solutions practice 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. A small number of contracts contain a large up front customization and implementation fee, with lower ongoing maintenance fees.

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

Fees from Absence Management Solutions ("AMS") services, such as attendance support and disability management are generally based on negotiated fees or a formula tied to the nature of the service being provided. Like most ESS agreements, most workplace health and productivity agreements may be terminated by the client upon 30 to 60 days' notice to us; however, it is typical for these agreements to continue for multiple years and many automatically renew on an annual basis. Fees for workers compensation services are charged based on billable hours or on a fee-for-service basis.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services.

The remaining operating expenses include rent and occupancy costs, technology costs (including equipment leases, telecommunications, and software licenses and maintenance), non-recoverable client service costs, training, marketing, office costs, professional services and insurance.

2015 SECOND QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended June 30, 2015**	**Three months ended June 30, 2014**	**Six months ended June 30, 2015**	**Six months ended June 30, 2014**
Revenue	$142,420	$140,877	$280,812	$271,968
Organic Revenue[(1)]	$141,769	$135,346	$276,265	$261,187
Adjusted EBITDA	$28,060	$27,240	$54,704	$51,917
Adjusted EBITDA margin	19.7%	19.3%	19.5%	19.1%
Normalized Free Cash Flow	$16,054	$13,039	$30,229	$27,727
Profit	$9,272	$9,246	$17,483	$17,444

Footnote:

(1) Organic revenue is defined as revenue excluding acquisitions not in the comparative period and divestitures, and is calculated as follows:

In thousands of dollars	**Three months ended June 30, 2015**	**Three months ended June 30, 2014**	**Six months ended June 30, 2015**	**Six months ended June 30, 2014**
Revenue	**$142,420**	**$140,877**	**$280,812**	**$271,968**
Acquisitions	(651)	–	(4,547)	–
Divestitures	–	(5,531)	–	(10,781)
Organic Revenue	**$141,769**	**$135,346**	**$276,265**	**$261,187**

Second quarter:

We had a solid second quarter of 2015 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2014. Highlights of the second quarter include:

- Revenue growth of 1.1% versus the comparative period primarily from our Administrative Solutions line of business. Organic Revenue grew by 4.7%.

- An increase in adjusted EBITDA of $0.8 million to $28.1 million versus the comparative quarter.

- The integration of Mercer Canada's Pension and Benefits Outsourcing ("Mercer Canada Outsourcing") operations with our existing Administrative Solutions practice is going well, continues on schedule and is expected to be materially completed by the end of 2015.

- We expect our organic revenue growth to continue to be in-line with our longer term historical performance. We also expect that our continued investment in our business and our established and prospective client base will continue to yield positive results for the Company.

2015 SECOND QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three months Ended June 30**		**Six Months Ended June 30**	
Selected Unaudited Consolidated Financial Information	**2015**	**2014**[9]	**2015**	**2014**[9]
(In thousands of dollars except per share amounts)				
Revenue	$142,420	$140,877	$280,812	$271,968
Deduct:				
Salaries, benefits and contractor expenses	95,646	94,478	190,275	183,376
Other operating expenses	22,121	21,373	42,638	41,119
Finance costs	3,661	3,723	7,186	7,107
Depreciation and amortization	8,132	8,480	16,090	15,764
Income tax expenses	3,588	3,577	7,140	7,158
Profit for the period	**9,272**	**9,246**	**17,483**	**17,444**
Add:				
Finance costs	3,661	3,723	7,186	7,107
Depreciation and amortization	8,132	8,480	16,090	15,764
Income tax expenses	3,588	3,577	7,140	7,158
EBITDA[1]	$24,653	$25,026	$47,899	$47,473
Adjustments:				
Sublease loss provision	–	–	700	–
Mercer Canada Outsourcing conversion costs	3,407	2,214	6,105	4,444
Adjusted EBITDA	**$28,060**	**$27,240**	**$54,704**	**$51,917**
EBITDA margin [2]	17.3%	17.8%	17.1%	17.5%
Adjusted EBITDA margin [2]	19.7%	19.3%	19.5%	19.1%
Cash provided by operating activities	$(3,444)	$2,145	$6,981	$10,900
Deduct: Capital expenditures [3]	(6,944)	(13,179)	(12,836)	(17,029)
Free Cash Flow [4]	**(10,388)**	**(11,034)**	**(5,855)**	**(6,129)**
Add (deduct):				
Changes in non-cash operating working capital	24,424	22,165	33,190	27,453
Mercer Canada Outsourcing conversion – capital	84	177	191	267
Current income taxes, net of income taxes paid	(1,473)	(483)	(3,402)	1,692
Adjustments to EBITDA [5]	3,407	2,214	6,105	4,444
Normalized Free Cash Flow [6]	**$16,054**	**$13,039**	**$30,229**	**$27,727**
Earnings per Share (basic)	$0.19	$0.19	$0.35	$0.36
Earnings per Share (diluted)	$0.19	$0.19	$0.35	$0.35
EBITDA per Share (basic)	$0.50	$0.51	$0.97	$0.97
Adjusted EBITDA per Share (basic)	$0.57	$0.55	$1.11	$1.06
Dividends declared	9,363	9,352	18,723	18,705
Twelve-month rolling Normalized Payout Ratio [7]	70.6%	68.4%	70.6%	68.4%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [8]	114.5%	117.9%	114.5%	117.9%

Footnotes:

(1) "EBITDA" is defined as profit before finance costs, income tax expenses, depreciation and amortization.

(2) "EBITDA margin" represents EBITDA as a percentage of revenue, and "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.

(3) "Capital Expenditures" includes additions to capital assets and intangible assets but excludes additions to capital assets and intangible assets acquired through business acquisitions, and is presented net of disposals.

(4) "Free Cash Flow" is defined as cash provided by operating activities adjusted for capital expenditures.

(5) Adjustments to EBITDA does not include the sublease loss provision. This amount has been excluded as it has already been added back in cash from operating activities before the change in non- cash operating working capital.

(6) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

(7) "Twelve-month rolling Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow for the rolling twelve-month period.

(8) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in non-cash operating working capital adjusted for unusual fluctuations. For the twelve-month period ended June 30, 2015 and June 30, 2014 the non-cash working capital was adjusted by $nil and $2,886, respectively, which represents the change in the leasehold inducement receivable related to capital expenditures.

(9) Comparative figures for the three and six months ended June 30, 2014 for depreciation and amortization, deferred income taxes expense, and profit were recast to reflect the retrospective adjustments arising due to the finalization in the third quarter of 2014 of the valuation of the intangible assets acquired as part of the Groupe AST (1993) Inc. ("Groupe AST") acquisition in March 2014. As a result of the impact on profit, the basic and diluted earnings per share were also recast. Refer to the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell Inc. and notes thereto for the three and six months ended June 30, 2015, and the "Supplementary Summary of Quarterly Results" below for further details.

ANALYSIS OF SECOND QUARTER 2015 OPERATING RESULTS

Revenue

Revenue for the three months ended June 30, 2015 increased by $1.5 million, or 1.1%, to $142.4 million compared to $140.9 million for the same period in 2014. Excluding acquisitions and the divestiture of the clinic based occupational health business in 2014, organic revenue grew by $6.4 million or 4.7%. Our Administrative Solutions line of business contributed 3.2% of the organic revenue growth during the quarter due to growth in US Health Exchange outsourcing, new client wins in Canada and increased volumes across several clients. The remainder of the increase came from our other lines of business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended June 30, 2015 increased by $1.2 million, or 1.2%, to $95.6 million compared to $94.5 million for the same period in 2014. Excluding the decrease in compensation expense of $3.2 million resulting from the divestiture of the clinic based occupational health business, net of acquisitions not in the comparative period, compensation expense increased by $4.4 million of which $1.2 million was attributable to incremental compensation expense for Mercer Canada Outsourcing conversion and $3.2 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the three months ended June 30, 2015 increased by $0.7 million, or 3.5%, to $22.1 million compared to $21.4 million for the same period in 2014 due to general increases required to support business growth.

Finance Costs

Finance costs for the three months ended June 30, 2015 remained unchanged at $3.7 million compared to the same period in 2014. Higher incremental borrowings were required to support business growth and

acquisitions, however were offset by lower applicable margins on borrowings and interest paid under the interest-rate swap agreement.

Depreciation and Amortization

Depreciation and amortization for the three months ended June 30, 2015 decreased by $0.3 million, or 4.1%, to $8.1 million compared to $8.5 million for the same period in 2014. This decrease is mainly attributable to lower amortization on Groupe AST acquired customer contracts which were fully amortized by December 31, 2014, partially offset by higher depreciation from capital expenditures required to support business growth.

Income Tax Expenses

Income tax expenses for the three months ended June 30, 2015 remained unchanged at $3.6 million compared to the same period in 2014.

Profit for the Period

As a result of the changes noted above, the profit for the three months ended June 30, 2015 was $9.3 million compared to $9.2 million for the same period in 2014.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $0.8 million, or 3.0%, to $28.1 million compared to $27.2 million for the same period in 2014. The increase is primarily due to growth in revenue of $1.5 million, partially offset by an increase in salaries and other operating expenses of $0.7 million after EBITDA adjustments for Mercer Canada Outsourcing conversion costs.

EBITDA decreased by $0.4 million to $24.7 million compared to $25.0 million for the same period in 2014.

Free Cash Flow

Free Cash Flow for the three months ended June 30, 2015 increased by $0.6 million to $(10.4) million compared to $(11.0) million for the same period in 2014. The increase is primarily due to lower capital expenditures (net of leasehold inducements) of $1.9 million, which was partially offset by a negative change in non-cash operating working capital as a result of the timing of supplier payments and growth.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended June 30, 2015 increased by $3.0 million to $16.1 million compared to $13.0 million for the same period in 2014. The increase was mainly due to lower capital expenditures of $1.8 million, once adjusted for the Mercer Canada Outsourcing conversion capital and changes in leasehold inducements of $4.4 million, lower current tax expenses of $0.7 million, and higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments, of $0.6 million.

ANALYSIS OF SIX MONTHS ENDED JUNE 30, 2015 OPERATING RESULTS

Revenue

Revenue for the six months ended June 30, 2015 increased by $8.8 million, or 3.3%, to $280.8 million compared to $272.0 million for the same period in 2014. Excluding acquisitions and the divestiture of the clinic based occupational health business in 2014, organic revenue grew by $15.1 million or 5.8%. Our Administrative Solutions line of business contributed 4.3% of the organic revenue growth during the six months ended June 30, 2015 from growth in US Health Exchange outsourcing, new client wins in Canada and increased volumes across several clients. The remainder of the increase came from our other lines of business.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the six months ended June 30, 2015 increased by $6.9 million, or 3.8%, to $190.3 million compared to $183.4 million for the same period in 2014. Excluding the decrease in compensation expense of $4.8 million resulting from the divestiture of the clinic based occupational health business, net of acquisitions not in the comparative period, compensation expense increased by $11.7 million of which $1.6 million was attributable to incremental compensation expense for Mercer Canada Outsourcing conversion and $10.1 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the six months ended June 30, 2015 increased by $1.5 million, or 3.7%, to $42.6 million compared to $41.1 million for the same period in 2014. The increase is primarily due to the $0.7 million sublease loss provision that was not in the comparative period and $0.8 million of general increases required to support business growth.

Finance Costs

Finance costs for the six months ended June 30, 2015 increased by $0.1 million, or 1.1%, to $7.2 million compared to $7.1 million for the same period in 2014. The increase is due to incremental borrowing required to support business growth and acquisitions, partially offset by lower applicable margins on borrowings and interest paid under the interest-rate swap agreement.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2015 increased by $0.3 million, or 2.1%, to $16.1 million compared to $15.8 million for the same period in 2014. This increase is mainly attributable to a higher capital assets balance, partially offset by lower amortization on Groupe AST customer contracts which were fully amortized by December 31, 2014.

Income Tax Expenses

Income tax expenses for the six months ended June 30, 2015 was $7.1 million compared to $7.2 million for the same period in 2014.

Profit for the Period

As a result of the changes noted above, the profit for the six months ended June 30, 2015 was $17.5 million compared to $17.4 million for the same period in 2014.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $2.8 million, or 5.4%, to $54.7 million compared to $51.9 million for the same period in 2014. The increase is primarily due to growth in revenue of $8.8 million, partially offset by an increase in salaries and other operating expenses of $6.1 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the six months ended June 30, 2015 adjustments:

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in the acquisition in November, 2012. The process commenced immediately after the acquisition and is expected to be materially complete by the end of 2015.

- The sublease loss provision arose as a result of actual subtenant income being lower than originally forecasted in the fourth quarter of 2013 when the provision was recorded for the Vancouver office consolidation. The sublease agreements for all of the vacated Vancouver offices are now complete.

EBITDA increased by $0.4 million to $47.9 million compared to $47.5 million for the same period in 2014.

Free Cash Flow

Free Cash Flow for the six months ended June 30, 2015 increased by $0.3 million to $(5.9) million compared to $(6.1) million for the same period in 2014. The increase is due to lower capital expenditures (net of leasehold inducements) of $0.5 million, which was partially offset by changes in non-cash operating working capital.

Normalized Free Cash Flow

Normalized Free Cash Flow for the six months ended June 30, 2015 increased by $2.5 million to $30.2 million compared to $27.7 million for the same period in 2014. The increase was mainly due to lower capital expenditures of $0.5 million, once adjusted for the Mercer Canada Outsourcing conversion capital and changes in leasehold inducements of $3.7 million, and higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments, of $2.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Six months ended June 30, 2015**	Six months ended June 30, 2014
Operating activities	**$ 6,981**	$ 10,900
Financing activities	**6,821**	33,517
Investing activities	**(13,052)**	(45,521)
Increase (decrease) in cash	**$ 750**	$ (1,104)

Cash provided by operating activities for the six months ended June 30, 2015 decreased by $3.9 million to $7.0 million compared to $10.9 million for the same period in 2014. The decrease is primarily due to higher net operating working capital of $5.7 million from increased deferred implementation activities and timing of prepayments to vendors, and a decrease in items included in profit not involving cash of $3.5 million related to deferred lease obligations and the sublease loss provisions. This was partially offset by lower income taxes paid of $5.0 million.

Cash provided by financing activities for the six months ended June 30, 2015 decreased by $26.7 million to $6.8 million compared to $33.5 million for the same period in 2014. This decrease was due to higher incremental borrowings required in 2014 to finance the Groupe AST acquisition, and the repayment of $2.5 million of promissory notes issued as partial consideration for the acquisition of Groupe AST in March 2015.

Cash used in investing activities for the six months ended June 30, 2015 decreased by $32.5 million to $13.1 million compared to $45.5 million for the same period in 2014. This decrease was primarily due to lower acquisition related payments of $28.3 million, and a decrease in additions to intangible and capital assets of $4.2 million (see capital expenditures section below). In the comparative 2014 period the Company paid $26.9 million (net of $0.1 million cash received) as initial cash consideration for the acquisition of Groupe AST.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid approximately on the 15th day of the following month. Monthly dividends were $0.065 per share for the quarter. The Company continued to declare the same monthly dividend amount in July 2015.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio at June 30, 2015 was 70.6% and remains comparable to 68.4% for the same period in 2014. The twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital, at June 30, 2015 was 114.5% compared to 117.9% for the same period in 2014. Our twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital, for 2015 and 2014 were higher than normal mainly due to the additional capital expenditures related to office consolidations and expansion that were largely completed during the last two years. In addition, there was a higher use of working capital, in particular for deferred implementation activities, as a result of significant revenue growth and large outsourcing contract wins.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended June 30, 2015 decreased by $6.2 million to $6.9 million compared to $13.2 million for the same period in 2014 and the decrease for the six months ended June 30, 2015 was $4.2 million to $12.8 million from $17.0 million in the comparative period. The decrease in capital expenditures for the three months ended June 30, 2015 is primarily due to reduced leasehold improvements and office furniture expenditures of $6.1 million (before inducements of $4.4 million), due to the consolidation of the downtown Toronto offices and consolidation of the Vancouver offices in the comparative period.

The decrease in capital expenditures for the six months ended June 30, 2015 is due to reduced leasehold

improvements and office furniture expenditures of $5.0 million (before changes in inducements of $3.7 million). This was partially offset by higher technology spending of $0.8 million mainly due to increased internally developed software activities.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have revolving loans under the credit facility arrangement and convertible debentures described under the section "Capital Resources".

A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Long-term debt	$ 251,370	$ -	**$ -**	$ 251,370	**$ -**	$ -	$ -
Convertible debenture	74,904	-	**-**	74,904	**-**	-	-
Promissory notes [(1)]	2,500	-	2,500	-	-	-	-
Operating leases, net	101,147	7,183	13,369	12,082	11,228	10,943	46,342
Total	**$429,921**	**$7,183**	**$15,869**	**$338,356**	**$ 11,228**	**$ 10,943**	**$46,342**

Footnote:

(1) The promissory notes were issued as partial consideration for the acquisition of Groupe AST, and are unsecured and non-interest bearing with $2,500 due on February 28, 2016.

We are party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been netted against the operating leases amounts reported above. We consider the risk of default by the subtenants to be low therefore no accrual has been set up.

Contingent Consideration

The purchase price for Dion Durrell Workers' Compensation which was acquired in July 2013 is contingent on future business results and the contingent payments are payable in two remaining instalments. The estimated two remaining instalments of $0.5 million and $0.6 million to be paid within 45 days of June 30, 2015 and June 30, 2016, respectively, are subject to revenue adjustments. At June 30, 2015, $0.9 million has been recognized as an acquisition liability on the statement of financial position, representing the total estimated contingent future instalments of $1.1 million discounted.

In addition, there is $0.5 million of contingent considerations due from 2015 through to 2018 related to four smaller acquisitions.

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

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)		**As at June 30, 2015**		**As at December 31, 2014**
Bank indebtedness	$	4,421	$	5,171
Long- term debt, net of debt issuance costs		250,623		222,435
Convertible debenture, net of issuance costs and equity component of debenture		73,300		72,875
Shareholders' equity		317,928		318,020

As at June 30, 2015, our working capital increased by $24.9 million from $75.9 million as at December 31, 2014 to $100.8 million as at June 30, 2015. The increase is comparable to the second quarter of 2014 and is primarily attributable to an increase in trade and other receivables and unbilled fees because of the revenue billing cycle in accordance with contract terms and growth in the business, the timing of vendor payments and a decrease in trade and other payables due to timing of the annual bonus payment. Additional details related to the changes in working capital from year end are included under the selected statement of financial position data section below.

Long-term debt

Long-term debt, net of debt issuance costs, increased by $28.2 million from $222.4 million as at December 31, 2014 to $250.6 million as at June 30, 2015. This increase is the result of an increase in borrowing under the Company's credit facility agreement to finance business growth and acquisition related payments.

The Company had a credit facility agreement maturing on November 29, 2017 which provided for a revolving facility of $250,000 (including a swing line of $7,000). The credit facility agreement was amended during the second quarter of 2015 to form the amended credit facility agreement (the "Amended Credit Facility Agreement"). The Amended Credit Facility Agreement provides for a revolving facility of $300,000 (including a swing line of $7,000).

The interest rates for the Amended Credit Facility Agreement are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up and down depending on the ratio of our consolidated debt to Adjusted EBITDA as defined in the Amended Credit Facility agreement. EBITDA is defined in the Amended Credit Facility Agreement as profit before finance costs, taxes, depreciation, amortization, non-controlling interest, non-recurring gains, and limited non-recurring losses. Adjusted EBITDA is defined in the Amended Credit Facility Agreement as EBITDA plus the pro-forma EBITDA from permitted acquisitions' entities.

The Amended Credit Facility is secured by a general assignment of all our assets. The Amended Credit Facility Agreement also requires us to maintain the following financial covenants on a consolidated basis:

(i) Ratio of debt to Adjusted EBITDA not greater than 3.0:1.0 or for the twelve month period immediately following the completion of a permitted acquisition as defined in the Amended Credit Facility Agreement with a purchase price of $25,000 or more, not more than 3.5:1.0
(ii) Ratio of EBITDA to interest expense of not less than 3.0:1.0

We are in compliance with all of the required financial covenants.

Convertible debenture

On March 27, 2012, the Company issued $75.0 million principal amount of 5.75% Convertible Unsecured Subordinated Debentures (“Debentures”) for net proceeds of $71.4 million allocated between debt and equity. The Debentures pay interest semi-annually on March 31 and September 30, and have a maturity date of March 31, 2017.

The debentures are convertible at the option of the holder to common shares at a conversion price of $15.00 per common share. The Company has the option to redeem the debentures on and after March 31, 2015 and at any time prior to March 31, 2016 at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of $15.00. On and after March 31, 2016, but prior to the maturity date, the debentures will be redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity the Company may elect to repay the principal and satisfy its interest obligations by issuing the Company’s common shares. During the six months ended June 30, 2015, 1,666 shares were issued upon conversion of debentures.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

The following table provides an overview of our selected statement of financial position data:

(in thousands of dollars)	As at June 30, 2015	As at December 31, 2014
Current assets	$ 178,327	$ 160,280
Non-current assets	597,594	596,375
Current liabilities	77,527	84,380
Non-current liabilities	380,466	354,255

Current Assets

Current assets as at June 30, 2015 increased by $18.0 million to $178.3 million from $160.3 million as at December 31, 2014. The increase is primarily attributable to an increase in trade and other receivables and unbilled fees of $14.1 million due to growth in the business and the revenue billing cycle in accordance with contract terms, an increase in prepaid expenses and other assets of $5.2 million due to timing of vendor payments, and an increase in the current portion of deferred implementation costs of $1.7 million, which was partially offset by a decrease in cash and investments held in trust for insurance premiums of $1.2 million, and an income taxes payable balance of $2.3 million compared to a receivable of $1.7 million at December 31, 2014.

Non-current Assets

Non-current assets as at June 30, 2015 increased by $1.2 million to $597.6 million from $596.4 million at December 31, 2014. The increase was primarily due to capital expenditures, including leasehold improvements that were partially funded by the Company’s landlords, of $12.8 million to support continued business growth, and $0.9 million of acquired intangible assets. Furthermore, there was an increase in the non-current portion of deferred implementation costs of $3.2 million due to implementation activities. The increases were partially offset by the depreciation and amortization of capital and intangible assets of $16.1 million.

Current Liabilities

Current liabilities as at June 30, 2015 decreased by $6.9 million to $77.5 million from $84.4 million as at December 31, 2014. The decrease is due to a decrease in trade and other payables of $12.0 million due to timing of the annual bonus payment, a decrease in insurance premium liabilities of $1.2 million and a decrease in bank indebtedness of $0.8 million, which was partially offset by higher deferred revenue of $3.0 million, an increase in the current portion of the fair value of the liability for the interest rate swap of $1.6 million and income taxes payable of $2.3 million compared to income taxes receivable of $1.7 million as at December 31, 2014.

Non-current Liabilities

Non-current liabilities as at June 30, 2015 increased by $26.2 million to $380.5 million from $354.3 million at December 31, 2014. The increase in non-current liabilities is the result of an increase in long-term debt of $28.2 million to support overall business growth, an increase in the fair value of the liability for the interest rate swap of $0.5 million, an increase in the convertible debenture payable of $0.4 million primarily due to accretion and amortization of issuance costs, an increase in other liabilities of $0.3 million, an increase in the non-current portion of future consideration related to acquisitions of $0.3 million, and an increase in provisions of $0.3 million primarily resulting from the sublease loss provision on a Vancouver office location. This was partially offset by the promissory note (non-current) with an amortized cost of $2.4 million as at December 31, 2014 becoming a current liability as at June 30, 2015, and a decrease in the deferred tax liability of $1.3 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2014 audited consolidated financial statements and accompanying notes, and in our 2014 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results from operations. Except as described below, the interim unaudited condensed consolidated financial statements for the three and six months ended June 30, 2015 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2014. Our critical accounting estimates and assumptions remain substantially unchanged.

Changes in Accounting Policies

IFRS 8, Operating Segments (“IFRS 8”):

IFRS 8 has been amended to explicitly require disclosure of judgments made in applying the aggregation criteria to aggregate operating segments. The amendments to IFRS 8 also clarify that a reconciliation of total reportable segments’ assets to the entity’s total assets is only required if this information is regularly provided to the entity’s chief operating decision maker. The Company adopted these amendments to IFRS 8 effective January 1, 2015. The adoption of these amendments will result in the Company enhancing its disclosure of the criteria that it uses to identify its reportable segment for the purposes of its consolidated financial statements for the year ending December 31, 2015.

Future Accounting Changes

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

On May 28, 2014 the IASB issued IFRS 15. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to

contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, Financial Instruments ("IFRS 9")

In July 2014 the IASB finalized IFRS 9. The standard is effective for fiscal years beginning on or after January 1, 2018 and is available for early adoption. The new standard includes revised guidance on the classification and measurement of financial assets, a new 'expected loss' impairment model and introduces a substantially-reformed approach to hedge accounting. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to our 2014 annual MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2014 annual and fourth quarter MD&A.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Selected Unaudited Consolidated Financial information (in thousands of dollars except per share amounts)

Quarter ended	**June 30, 2015**	**March 31, 2015**	**December 31, 2014**	**September 30, 2014**	**June 30, 2014**	**March 31, 2014**	**December 31, 2013**	**September 30, 2013**
Revenue	142,420	138,392	131,195	132,703	140,877	131,091	118,570	118,526
Profit (loss) [1, 2]	9,272	8,211	461	7,235	9,246	8,198	(11,279)	6,937
EBITDA	24,653	23,246	15,819	22,321	25,026	22,447	(2,502)	20,484
Adjusted EBITDA	28,060	26,644	22,581	24,429	27,240	24,677	20,217	21,909
EBITDA margin	17.3%	16.8%	12.1%	16.8%	17.8%	17.1%	(2.1%)	17.3%
Adjusted EBITDA margin	19.7%	19.3%	17.2%	18.4%	19.3%	18.8%	17.1%	18.5%
Earnings per share (basic)[2]	0.19	0.17	0.01	0.15	0.19	0.17	(0.23)	0.14
Earnings per share (diluted)[2]	0.19	0.16	0.01	0.15	0.19	0.17	(0.23)	0.14
Normalized Free Cash Flow	16,054	14,175	13,446	9,357	13,039	14,688	15,939	11,056
Dividends declared	9,363	9,360	9,358	9,359	9,352	9,353	9,350	9,349
Twelve-month rolling normalized payout ratio	70.6%	74.8%	74.1%	70.6%	68.4%	65.5%	69.3%	73.2%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	114.5%	107.5%	98.1%	108.0%	117.9%	94.9%	124.4%	123.2%
Total assets	775,921	772,449	756,655	759,968	767,980	751,754	700,116	708,412
Total long-term debt	323,923	303,904	295,310	300,590	300,452	282,112	247,668	245,324

Footnotes:

(1) The loss for the quarter ended December 31, 2013 included impairment charges of $16,700 primarily related to the Health Clinics sub-service line within the former OHS line of business.

(2) The profit, basic and diluted earnings per share, and total assets for the quarters ended June 30, 2014 and March 31, 2014 were revised to reflect the retrospective adjustment due to the finalization of the intangible assets valuation for Groupe AST in the third quarter of 2014. This resulted in a change to the purchase price allocation and faster amortization of acquired customer contract intangible assets. The amounts previously reported for these figures for the quarters ended June 30, 2014 and March 31, 2014 were as follows:

	June 30, 2014	**March 31, 2014**
Profit	10,105	8,484
Earnings per share (basic)	0.21	0.17
Earnings per share (diluted)	0.20	0.17
Total assets	769,583	752,165

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at June 30, 2015.

Internal Control Over Financial Reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at June 30, 2015. No changes were made in our internal controls over financial reporting during the second quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares currently trade on the Toronto Stock Exchange under the symbol MSI. Additional information relating to us, including all public filings and our Annual Information Form, is available on the SEDAR website (sedar.com) and on our own website at morneaushepell.com.

The content of this MD&A reflects information known as of August 4, 2015.